



# **INCOME, SUPER AND EXCESS PROFITS TAX**

**IN RELATION TO  
ACCOUNTS**

**BY**

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**"HINTS ON THE STUDY OF EXECUTORSHIP ~~ACCOUNTS~~"**

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## ~~PREFACE~~

*Am*

When, in March 1918, the various amendments of the Law relating to Income Tax were consolidated into the one Act of 1918, I thought it desirable to bring out work on the subject, from accountancy as well as legal points of view, in as much as no book existed at that time to help the taxpayer in arriving at a correct estimate of his Income or Profits liable to Income and Super Taxes.

It is, therefore, hoped that this little book may prove useful to Business men, Manufacturers, Lawyers, Tradesmen, Professional men, Landlords, Employees and others, as affording in a concise and clear manner a general idea of the important points requiring their attention before paying Income Tax, Super Tax and Excess Profits Duty. A study of the book will enable them to record the particulars of such taxes more clearly in their books, to fill up the legal Annual Returns (Statements required by the Law relating to Income, Super and Excess Profits Tax) more accurately, to see that they get full benefit of the rights and reliefs to which they are legally entitled, to make claims for the refund of tax in the right direction, and, in short, to satisfy themselves that they are not over-assessed. The book may also prove of great use to Accountant-Students, intending to practise as Professional Accountants and Auditors.

The manuscript of the first portion of the book relating to Income and Super Tax was ready by September last, but I was waiting to see if any change was brought about in the Super Tax Act, which seemed probable at that time, and also to get more detailed particulars of the Excess Profits Duty. Special pains have been taken to make this little book as clear, concise and practical as possible, but, as its subject matter is a technical one, I shall feel obliged if I am informed of any errors that may have crept into the book, so that they may receive my attention when preparing a second edition.

*373, Hornby Road, Fort,  
Bombay, 13th February, 1919*

F. R. M.

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# CHAPTER I

5-OCT 1933

## PRINCIPLES OF INCOME TAX

### 1. Income Tax Officials.

In order to understand the Income Tax Principles and Procedure, it is advisable to know the functions of different Officials appointed to put into execution the Income Tax and Super Tax Acts.

The Chief Executive Official in charge of the Income Tax Department is the Collector of Income Tax as controlled by the Commissioner of Income Tax and the Chief Revenue Authority.

In the City of Bombay, for instance, the Collector of Income Tax is assisted by the 2nd Collector and the Deputy Collector, who are invested with the powers of the Collector.

In Districts and in Sind, Assistant Collectors and Deputy Collectors in charge of, or otherwise conducting, the Revenue Administration of Sub-divisions of Districts are usually invested with the powers of the Collector under the Act, unless otherwise provided.

The assessment and collection of Income Tax and Super Tax are dealt with by the Collector (assisted in the City of Bombay by the 2nd Collector and the Deputy Collector) with the help of the Inspectors, the Examiners of Accounts and the General Staff, wherever such help is needed under the Act.

The duty of the Examiners of Accounts is to ascertain the Taxable Income or Profits, after satisfying themselves with the Accounts, Statements, Returns, etc. received from various Assesseees. The Inspectors, however, are engaged more or less on outdoor work. They find out persons chargeable with Income Tax and report thereon to the Collector. In case of petty merchants and traders, these Inspectors also estimate their Taxable Income or Profits.

### 2. Origin of Income Tax.

Though the Law relating to Income Tax in India came into force on 1st April 1886, the Tax was already in

existence in England, ever since 1798, when it was introduced, for the first time, as a temporary War Tax, by the well-known statesman, Mr Pitt. This Tax was, however, withdrawn in the year 1816, but was re-imposed in 1842.

The Indian Income Tax Act of 1886 was modified and amended from time to time, so that all such modifications and amendments have been now consolidated into the present Act, viz., VII of 1918, which was passed by the Indian Legislative Council, received the assent of the Governor-General on 19th March 1918, and came into force on 1st April 1918.

### **3. Definition and extent of Income Tax.**

Income Tax is a levy made by the Government on the Income or Profits of Individuals, Firms and Companies, in consideration of the protection by the Government of the Assets (which earn such Profits) of such persons, and of Trade and Commerce in general.

It extends to the whole of British India, including the Sonthal Parganas, and applies also, within the dominions of Princes and Chiefs in India in alliance with His Majesty, to British subjects in those dominions, who are in the service of the Government, or of a Local Authority established in the exercise of the powers of the Governor-General in Council in that behalf and to all other servants of His Majesty in those dominions.

### **4. Liability to Income Tax and the Basis of Assessment thereof.**

The Tax is payable in advance, for the year beginning 1st April in each year, by all persons resident in British India and the dominions mentioned above, as well as by persons not resident therein, so far as they derive income from Properties, Securities, Trade, Profession or Employment in British India and the said dominions, and is based on the income of the Assessee for the previous year, as per the Graduated Scale of Rates given at the end of Chap. VII.

In the case of Joint Stock Companies and Firms constituted under a registered Instrument (Partnership Deed) of Partnership, the Tax shall be levied at the maximum rate specified in the said Graduated Scale of Rates (i. e., at 1 anna in the rupee).

## 5. Application of the Income Tax Act, 1918.

The Act shall apply to all income, from whatever source it is derived, if it accrues or arises or is received in British India, except,

(a) Income derived from Property held in trust, for Religious or Charitable purposes. Any claim for the exemption of such income must be supported by a Certificate from the Collector, in Form A.

(b) Income of Religious or Charitable Institutions applied solely towards religious or charitable cause. (For details, see Chapter VII, Section 8)

(c) Income of Local Authorities.

(d) Interest on Securities representing the Provident Fund of Industrial and Provident Insurance Societies.

(e) Capital sum received by way of Pension, or Compensation for injury or death.

(f) Special allowance to meet expenses incurred in the performance of some duty.

(g) Legacies.

(h) Casual Receipts or Income not arising in the ordinary course of regular business.

(i) Any perquisite or benefit, which is neither money nor capable of being converted into money.

(j) Agricultural Income.

## 6. Income arising outside British India.

From the above paragraph, it is evident that Income earned in a place outside British India, by a person resident in British India, would not be assessable under this Act, if it is kept in such place outside British India, and not brought into British India.

Exception: Professional Fees paid in any part of India to a person ordinarily resident in British India shall be deemed to be income chargeable under the head, "Professional Earnings."

## 7. Classes of Income chargeable to Income Tax.

Income from various sources may be taxed under any one or more of the following heads:—

(a) Salaries, Wages, Annuity, Pension, Gratuity, Fees, Commission, Perquisites, Allowances and other

receipts in lieu of, or in addition to, Salaries or Wages.

(b) Interest and Dividends on Securities, Investments etc.

(c) Income derived from House Property.

(d) Income derived from Business, Trade, Commerce, etc., and from sales or dealings in property, shares or securities.

(e) Income derived from Profession, Vocation, etc.

(f) Income derived from sources other than above:—

1. Interest on Mortgages, Loans, Debentures, Fixed Deposits, Current Accounts, etc.
2. Income accrued outside British India, which has been received directly or indirectly in British India, including Dividends, Pensions, and income from agricultural land not paying land-revenue to the British Government.
3. Director's Fees, Survey Fees, etc.
4. Share in Joint Family Income.
5. Ground Rent.
6. Profit accrued from transactions, whether in Partnership with others or not, which have not been accounted for elsewhere in the above items.

## 8. Rights and Duties of Taxpayers.

Every Taxpayer is morally and legally bound to pay to the Government the Tax justly due to the latter, which is assessable on his income from all sources, inasmuch as his interests and property are safeguarded and looked after by the Government. For this purpose, it is advisable for him to keep proper Books and Accounts, so that he may not pay either more or less Income Tax than what is actually and justly due from him. It will not be out of place to suggest here that Accounts may be closed, as far as possible, on 31st March in each year, and that they may be audited by a qualified Professional Accountant.

By keeping proper Accounts duly audited as stated above, the Taxpayer makes sure that he receives full benefit of all the Rights and Reliefs to which he is legally entitled,

and that he is not over-assessed. Some of the said rights and reliefs may be:—

1. To be exempted from the Tax altogether, where his Income from all sources is less than Rs. 2,000 per annum.
2. To appeal against unjust or inequitable Assessment.
3. To set off a loss or losses arising in one or more businesses against a profit or profits arising in another business or businesses carried on by one and the same Taxpayer.
4. To claim an Allowance in respect of Life Insurance Premium paid, equal to an amount not exceeding one-sixth of the Net Income from all sources.
5. To claim a Refund of a part or whole, as the case may be, of the Tax paid on, or deducted from, the Income at the source thereof, where the income is less than Rs. 25,000, as stated in Chapter VII, Section 14.

## CHAPTER II

### SALARIES, WAGES, ETC.

#### **I. Government Officials.**

Salary, Wages, Annuity, Pension, Gratuity, etc. due to Government Officials will be paid to them, after such salary etc. is reduced by the amount of the tax to which they are liable. The exceptions thereto are:—

1. Any salary not exceeding Rs. 500 per mensem received by any Member of His Majesty's Forces, or of His Majesty's Indian Forces, as the pay of an appointment which is ordinarily reserved exclusively for Members of those Forces; or
2. Any sum deducted under the authority of Government from the salary of any individual for the purpose of securing to him a Deferred Annuity or of making provision for his wife or children, provided that the sum so deducted shall not exceed one-sixth of the salary.

**NOTE:** While fixing the rate of Tax on the salary of a part-time Government Official, his income from other sources must also be taken into consideration. If he has been taxed at a rate higher or lower than that which is arrived at on his income from all sources, he may make a claim for refund of the excess tax paid, or must pay the balance of tax payable, as the case may be. (See Illustration in Chapter VI, Section 2.)

## **2. Servants and Pensioners of Local Authorities.**

The tax to which servants and pensioners of Local Authorities are liable will be deducted from their salary, annuity, pension, gratuity, etc. at the time of the payment thereof, by the Officer whose duty it is to make the payment. The Officer will thereafter pay such tax to the Government.

If the tax is not deducted from any payment of salary, etc., it may be deducted from a subsequent payment. Such power to deduct tax shall be without prejudice to any other mode of recovery.

If the said Officer does not deduct the Tax as mentioned above, he will be held personally liable for it.

## **3. Servants and Pensioners of Companies, Firms or Employers.**

As regards servants and pensioners of companies and private employers, the Tax will be payable by them at the time when any portion of their Salary, Wages, Annuity, Pension, Gratuity, Fee, Commission, etc., is paid to them.

Usually the Collector enters into an arrangement with such private employers, whereby the tax is collected by the employers from their employees on behalf of the Government, and then handed over to the latter.

A private employer, wishing to enter into such arrangement, may enter into an Agreement with the Collector, on the following conditions:—

1. that he undertakes to prepare and, within 15 days from the 31st day of March each year, deliver or cause to be delivered to the Collector a Return in writing, in Form B;
2. that he undertakes, as required by Section 15 of the Act, to deduct at the time of payment income tax in respect of incomes of his employees chargeable under the head "Salary, etc.";

3. that he binds himself, as required by Section 15 (4) of the Act, to pay all sums so deducted within one week from the date of such deduction to the credit of the Government, or as the Governor-General in Council directs;
4. that he agrees, as laid down in Section 15 (5) of the Act, to hold himself personally in default in respect of the tax, if he does not deduct and pay the tax as required above; and
5. that the Collector allows such private employer, if the employer so desires, to deduct from the amount of tax to be recovered by him commission at such rate, not exceeding  $2\frac{1}{2}\%$  of the amount of the tax, as the Collector and the employer may mutually agree upon.

#### 4. Annual Returns.

The prescribed person in the case of every Government Office, and the principal Officer of every Local Authority, Company, Public Body, Association, Firm, etc., is required to prepare and deliver to the Collector, within 15 days from 31st March in each year, a written Statement, called the Annual Return, in Form B, giving the following particulars :—

1. The name of every person who is receiving, by way of any Salary, Wages, Annuity, Pension, Gratuity, Fee, Commission, etc., Rs. 900 or upwards per annum in Bombay and Rs. 600 or upwards per annum elsewhere, together with the address of every such person, so far as it is known, in the previous year.
2. The amount of such salary, etc., so received by each such person, and the time at which the same was paid.
3. The amount of income tax deducted from each such person.



## CHAPTER III

### INCOME FROM SECURITIES AND INVESTMENTS

#### 1. Income taxed at the Source.

The person who is empowered to pay interest on any Security of the Government or on Debentures or other Securities, for money issued by or on behalf of a Local Authority or Company, shall deduct income tax, to which such interest is liable, before the payment of such interest, and shall hand over the tax to the Government. The Exception is:—

No tax shall be payable on the interest receivable on any Security of the Government issued or declared "Free of Income Tax"

If such person does not deduct and pay the tax required by the above clause, he shall be personally liable for it.

#### 2. Preparation of Accounts.

*Illustration.*—T. Chinoy instructs his Accountant to prepare a Statement, showing his Taxable Income for the year ending 31st December 1917, and to ascertain the amount of Tax payable or recoverable by him, from the particulars given below:—

He has borrowed on Personal Security Rs. 10,000 from H. Patel, on which he pays gross interest of 4% per annum. He has been insured with the Gresham Life Office, for an Annual Premium of Rs. 900. He holds the following Securities and Investments:—

	Rs.
10 Preference Shares (6%) of A. B. C. Co., Ltd.	2,000
20 Shares of the X. Y. Bank ... ..	10,000
10 Shares of the Infants' Dairy Co., Ltd. ...	1,000
5 " " Edward Mills Co., Ltd. ...	2,500
100 " " Eastern Maritime, Ltd. ...	2,500
10 " " Eastern Investment of Com- merce, Ltd ... ..	1,000
3 1/2% Government Promissory Notes ... ..	2,000
5 1/2% War Bonds (Free of Income Tax) ... ..	5,000
4% Port Trust Bonds ... ..	1,000

	Rs.
Loan on Mortgage, @ 6%, to D. Laskary ...	14,000
Do. do 5%, to K. Morley (Income Tax to be paid by the Mortgagor)...	5,000
5% Deposit in the Firm of Dalal and Nanavati	15,000
Interest on Bank of India Current Account ...	375

The X. Y. Bank declared an interim dividend of 10% and a final dividend of 18% (both Free of Income Tax). The Dairy Co., The Eastern Maritime and the Eastern Investment of Commerce were in their infancy. The Edward Mills declared a dividend of 7½% (free of tax), while the dividends on the rest of the investments were received less tax.

### STATEMENT FOR INCOME TAX ASSESSMENT 1918-1919

#### (a) Income already taxed, or not to be taxed :—

Source of Income.	Rate.	Net Income received.			Tax deducted at the source.			Gross Income.		
		Rs	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1. X. Y. Bank Shares ...	14%	1,400	0	0	nil			1,400	0	0
2. Edward Mill Shares ...	7½%	187	8	0	„			187	8	0
3. War Bonds ...	5½%	275	0	0	„			275	0	0
4. Mortgage Loan (tax to be paid by Mortgagor) ...	5%	250	0	0	„			250	0	0
5. A. B. C. Co. Shares ...	6%	112	8	0	7	8	0	120	0	0
6. Government Promissory Notes	3½%	65	10	0	4	6	0	70	0	0
7. Port Trust Bds.	4%	37	8	0	2	8	0	40	0	0
Total		Rs. 2,328	2	0	14	6	0	2,342	8	0

#### (b) Income to be taxed, or Taxable Income :—

1. 6% Mortgage Loan ...	Rs. 840
2. 5% Deposit with Dalal & Nanavati ...	„ 750
3. Bank of India Current Account ...	„ 375

Ofd. Rs. 1,965

2,342 8 0

	Bfd. Rs. 1,965	2,342	8	0
<i>Less Allowances :—</i>				
4% Interest on Loan to				
H. Patel ...	400	1,565	0	0
<hr/>				
TOTAL INCOME	Rs. 3,907	8	0	@ 5 pies

**(c) Net Taxable Income :—**

Income to be taxed ...	Rs. 1,565	0	0
<i>Less Life Insurance</i>			
Premium (1/6 of			
Rs. 3,907 8 0)...	651	4	0
	Rs. 913	12	0

The amount of Income Tax payable by the Assessee would be Rs 23-12-10, *viz.*, 5 pies in the rupee on Rs. 914; while that recoverable by him would be Rs. 8-6-2, *viz.*, 7 pies in the rupee on Rs. 230 (*viz.*, total of last three items of (a) above), inasmuch as the Tax on Rs. 230 was deducted at the rate of 1 anna in the rupee.

**NOTE:**

1. *Life Insurance Premium.*—As the amount of Premium paid, *viz.*, Rs. 900, exceeds one-sixth of the Net Income from all sources, *viz.*, Rs. 3,907-8-0, only a sum of Rs. 651-4-0 (one-sixth of Rs. 3,907-8-0) has been deducted by way of an allowance therefor.

2. *Rate of Tax.*—The Assessee is not exempted from Income Tax, simply because his Untaxed Income of Rs. 914 is less than Rs. 2,000; but his income from other sources is also to be taken into account. As his Total Income of Rs. 3,907 is more than Rs. 2,000 and less than Rs. 5,000, the rate of income tax fixed in his case will be 5 pies in the rupee.

3. *Refund of Tax.*—Though the Assessee claims a refund of Rs. 8-6-2, he cannot claim to set it off against the Tax of Rs. 23-12-10. He must first pay the Tax, and then send in his claim for the Refund, which he would get in due course.

## CHAPTER IV

### INCOME FROM HOUSE PROPERTY

#### 1. Basis of Assessment.

Income Tax shall be paid by the owner of house property, in addition to Municipal and other Rates and Taxes, on the bonafide Annual Letting Value, equivalent to approximate Annual Rent, of his house property. This Annual Value is usually equal to the Gross Rateable Value fixed by the Municipality for Property Tax.

The Allowances, which may be claimed and deducted from this Annual Value, are given as follows: —

1. A sum equal to one-sixth of such Value, in consideration of Repairs, Municipal Taxes, etc.
2. Insurance Premium paid against risk of destruction or damage, (less Rebate).
3. Interest paid to Mortgagee of such property.
4. Ground Rent paid.
5. Payment on account of Land Revenue (usually to the Collector).
6. In case of vacancy, such amount for the loss of rent as the Collector may allow.
7. Charges paid for collecting rent, not exceeding 6% of the Gross Rental (Annual Letting Value).

#### 2. Preparation of Accounts, Statements etc.

*Illustration:*—K. Sorabji, Proprietor of some house properties, has been insured with the Oriental Life Office, at an Annual premium of Rs. 1,700. He has no other sources of Income. He requests you to prepare a Statement, showing his Taxable Income for the year ending 31st March 1918, from the particulars given below:—

He owned a House in "A" Ward (No. 1257,) at 321, Hornby Road, and another in "D" Ward (No. 329,) at 651, Girgaum Road. He had also a Bungalow in Poona at 375, Main Street, and a Cottage in Deolali at 57, Dhondy Road. The Poona Bungalow was, however, sold in July 1917 (last rent was received for June), while the Deolali Cottage was sold in October 1917 (last rent received for September). The Net

or Rateable Values (as per Municipal Bills) and the amounts paid for Fire Insurance Premiums, were as follows:—

Property.	Rateable Value.	Insurance.
Hornby Road House	Rs. 6,570 ✓	Rs. 190
Girgaum Road House	„ 4,140	„ 120
Poona Bungalow	„ 2,430	„ 80
Deolali Cottage	„ 1,530	„ 46

Other expenses on Bombay Houses were paid as shown below:—

Interest paid to Mortgagee of Hornby Road House	Rs. 480
Ground Rent paid ... ..	„ 109
Paid to Collector of Bombay for Land Revenue ... ..	„ 17
Rent Collection Charges ... ..	„ 873
Vacancy Allowance for Girgaum House, as agreed to by the Collector ... ..	„ 200

**Details of House Property (as per Form D)**

Ward and No.	Name and number of street in which property stands.	In whose name property stands in Municipal Register.	Annual Letting Value.	Deductions claimed.
A. No. 1257	321, Hornby Road, Fort.	K. Sorabji	Rs. 7,300	
D. „ 329	652, Girgaum Road.	do.	„ 4,600	Rs. 1,661 ✓ (see below).
C. „ 71	375, Main St., Poona.	do.	„ 675	
A. „ 54	57, Dhondy Rd., Deolali.	do.	„ 850	
			Rs. 13,425	

**Allowances Claimed (Vouchers to be submitted):—**

1. Insurance Premium ... ..	Rs. 353 ✓
2. Interest on Mortgage ... ..	„ 480 ✓
3. Ground Rent ... ..	„ 109 ✓
4. Land Revenue ... ..	„ 17
5. Collection Charges (6% of 13,225) ... ..	„ 792 745

Rs. 1,661 ✓

### Statement Showing Taxable Income.

Gross Annual Value	...	Rs. 13,425	0	0
Less Vacancy Allowance	...	200	0	0
<hr/>				
Less Allowances claimed (as above)	...	Rs. 1,661	0	0
1/6th of Total Annual Value (Rs. 13,225), for Municipal Taxes, Repairs etc.	...	2,204	2	8
		3,865	2	8
<hr/>				
TOTAL INCOME	.....	Rs. 9,359	13	4
Less Life Insurance Premium (1/6th of Rs. 9359-13-4) allowed	...	Rs. 1,559	15	7
<hr/>				
TAXABLE INCOME	.....	Rs. 7,799	13	9

The Assessee will pay a tax of Rs. 243-12-0, viz., 6 pies in the rupee on Rs. 7,800, as his income is more than Rs. 5,000, but less than Rs. 10,000.

#### NOTE:

(1) *Annual Letting Values*.—Annual Letting Value means a sum at which the property might reasonably be expected to let from year to year. This represents the Gross Rateable Value, which could be ascertained from the Net or Rateable Value (which is 90% of the Gross), stated in Municipal Property Tax Bills. As for instance, Rs. 7,300 of Hornby Road Property has been arrived at thus:—

Net Value.	Net Value.	Gross Value.
90	: 6,570	: : 100 : ?
∴ ? =	$\frac{6,570 \times 100}{90}$	= Rs. 7,300.

As the Poona Bungalow was sold in July, its Rateable Value has been taken for 3 months only. Similarly, 6 months' Rateable Value has been taken for the Deolali Cottage sold in October.

Where the property is in the occupation of the owner, such value shall not exceed one-tenth of his total income.

(2) *Fire Insurance Premium.*—Here also 12 months' premium has been taken into account in the case of Bombay Houses, while those for Poona and Deolali have been taken for 3 months and 6 months respectively. It would not be out of place to mention here, that the actual amount of premium paid will be allowed by the Collector, and not the amount of the premium receipt, from the amount whereof a rebate or discount of 25% is almost invariably given by many Fire Insurance Companies.

(3) *Collection Charges.*—Though these charges have been actually paid up to Rs. 879 in connection with Bombay Houses, Rs. 702 only have been taken as an allowance, being the maximum 6% of the Gross Rental of Rs. 11,700 (*viz.*, Rs. 7,300 + Rs. 4,600—Rs. 200). These charges are usually allowed in the case of large properties only.

(4) *Life Insurance Premium.*—The Assessee has actually paid Rs. 1,700 for his insurance, but he cannot claim the allowance for more than one-sixth of his Total Net Income of Rs. 9,359-13-4. The said one-sixth amounts to Rs. 1,559-15-7 which has been taken as an allowance.

(5) *Vouchers for Admissible Allowances.*—While claiming the admissible allowances, vouchers (or copies thereof) must be submitted for the satisfaction of the Collector. These vouchers may take the shape of acknowledgments, receipts, contracts, agreements, correspondence, etc.

## CHAPTER V

### INCOME DERIVED FROM BUSINESS, TRADE ETC.

#### 1. Items allowed to be charged against Profits.

The tax under this head (business, trade, etc.) shall be payable by an Assessee on the Profits or Income of any Business, Commerce, Trade, etc. carried on by him, subject to the following items allowed to be charged against such profits, by way of Expenses and Losses arising out of the Business:—

##### (A) Expenses:—

1. Cost of Repairs to Premises, where this is not allowed to be deducted from rent by the landlord.

2. Rent paid for the Premises used solely for carrying on the business. If the premises be owned by the Assessee, the bona fide Net Annual Value thereof may be charged. If part of the premises be used for dwelling purposes, the amount to be charged will be fixed by the Collector.

3. Interest paid on moneys borrowed for the purposes of the business, at a rate per cent, not varying with the profits.

4. Fire Insurance Premium paid for Buildings, Plant or Machinery used for the purposes of the business.

5. Repairs expended on Machinery or Plant.

6. Sums paid on account of Land Revenue, Local Rates or Municipal Taxes in respect of the premises.

7. Revenue Expenditure incurred in the ordinary course of regular business, and solely for the purpose of earning such profits.

8. Excess Profits Duty paid.

**(B) Losses:—**

1. Bad Debts actually written off. Estimated Reserves for them would not be allowed to be charged against profits.

2. Depreciation of Building, Plant or Machinery, not exceeding a percentage on the Original Cost thereof to the Assessee to be fixed by the Government. The Collector has allowed, in several cases, to be charged against profits, by way of depreciation, 5% of the original cost in the case of Plant and Machinery, and 2½% in the case of Buildings. Such allowance is subject to the following conditions:—

(a) The amount claimed must have been actually debited in the Books of Accounts.

(b) If in one year the full allowance admissible has not been claimed, the balance may be added to the amount claimed in the subsequent period.

*Illustration.*—A lathe was purchased on 1st January 1912 for Rs. 8,000. Profits prior to charging depreciation thereon were Rs. 500 for 1912, Rs. 300 for 1913, Rs. 200 for 1914, Rs. 900 for 1915, Rs. 100 for 1916 and Rs. 800 for 1917. The Collector allowed depreciation to be charged to Profit and Loss Account @ 5% per annum. What would be the amount of Depreciation to be charged against



the profit of 1917 (for the Assessment 1918-19), if advantage were taken of the above condition ?

Date.	Profit	Depreciation taken advantage of.	Amount to be added to subsequent depreciation	Assessable profit.
	Rs.	Rs.	Rs.	Rs.
31-12-1912	500	400	nil	100
31-12-1913	300	300	100	nil
31-12-1914	200	200	300.	nil
31-12-1915	900	700	nil	200
31-12-1916	100	100	300	nil
31-12-1917	800	700	nil	100

The amount of Depreciation to be charged against the Profit of 1917 is Rs. 700.

(c) The total of all such allowances claimed, in respect of any one asset, must not exceed the Original Cost thereof to the Assessee.

*Illustration.*—A Gas Engine, purchased on 1st January 1898 for Rs. 25,000, was estimated to last for 25 years. The rate for depreciation to be charged against profit, and allowed by the Collector, was 5% per annum. On 31st December 1898, and thereafter at the end of each year, Rs. 1,250 were charged by way of depreciation to the Profit and Loss A/c. prepared for Income Tax purposes. The twentieth instalment so charged on 31st December 1917 brought the total past allowances to a figure of Rs. 25,000. Though the engine is still being used in 1918 and will perhaps last for a couple of years thereafter, on 31st December 1918, and thereafter, no further amount would be allowed to be charged, by way of Depreciation, on this Engine, against Assessable Profits.

3. Loss in respect of Obsolescence of Plant or Machinery, *viz.*, the difference between the Original Cost and the sum of (a) total allowances claimed in respect of Depreciation and (b) the net amount realised from the sale of the asset.

*Illustration.*—A Soda-water Machine, bought for Rs. 10,000 in 1910, became obsolete in the end of 1917, inasmuch as owing to some new invention therein, similar

machines, which would turn out double the quantity of work in the same time as the old ones, could then be purchased for Rs. 12,000. Upon the purchase of the new machine early in 1918, the old one was sold for Rs. 2,000, Rs. 25 being the commission paid thereon. The total amount of depreciation (allowed by the Collector) charged against profits from 1910 to 1917 was Rs. 4,000. Ascertain the Loss sustained through obsolescence upon the sale of the old machine.

Dr.		OLD MACHINE ACCOUNT		Cr.	
✓ 1910 To cash		1917 By Depreciation			
(purchase)	Rs. 10,000	(total of the past)	Rs. 4,000		
1918 To cash		1918 By Cash (sale			
(commission)	„ 25	proceeds) ...	„ 2,000		
		1918 By Profit and			
		Loss A/c. X	„ 4,025		
	Rs. 10,025		Rs. 10,025		

The Loss through obsolescence chargeable against Profits was Rs. 4,025.

4. Loss sustained in any one or more businesses may be set off against Profit earned in another or other businesses carried on by one and the same Assessee.

## 2. Casual Receipts and Capital Profits

The Taxable or Assessable Profits will not include any profit of a Capital nature, *e. g.*, profit on the Sale of an Asset or a part thereof, profit on the re-issue of Shares, Premium on issue of Shares, Debentures, etc. Casual Receipts or Profits not earned in the ordinary course of regular business should also be ignored. If such receipts be repeated sufficiently often to suggest that the Assessee is carrying on a business or occupation with a view to profit, the Collector will thereupon be justified in demanding Income Tax on such Receipts.

## 3. Losses and Expenses not allowed to be charged against Profits.

The following items should not be charged against Profits, inasmuch as they are either Expenses and Losses

not incurred in the course of regular business or they are mere Appropriations of Profits, *viz.*,

**(a) Expenses and Losses not incurred in the course of regular business.**

1. Capital Loss on the Sale of an Asset.
2. Loss on Speculation or Gambling transactions.
3. Capital Expenditure in the shape of heavy Repairs, Renewals or Replacements, which go to increase the value of an Asset.
4. Gifts, Charities, Presents, etc.
5. Commissions of irregular nature.
6. Payments on account of Goodwill.
7. Loss suffered through under-insurance of assets.
8. Casual Loss.
9. Any other expenditure not incurred in the ordinary course of regular business.

**NOTE.**—*Casual or Speculation Losses*.—It is submitted that if Casual Profits are regarded as assessable, it is fair that Casual Losses of a similar nature should be allowed to be charged against such Profits. This is usually allowed in the case of dealers on the Stock Exchange, who have entered into private speculative transactions, where they would be allowed to set off such Losses sustained against Profits so made.

A layman, who occasionally enters into Stock Exchange transactions, is not usually expected to include Speculation Profit in his Return, nor is he allowed to charge Speculation Loss against his Profit or Income. If, however, he is continually dealing in such transactions, he is regarded as a Professional Speculator, and his Speculation Profits would become assessable, while his Speculation Losses may or may not be allowed by the Collector to be charged against Profits from other sources.

**(b) Appropriations of Profit.**

1. Interest on Proprietor's or Partners' Capital Accounts.
2. Partners' Management Salaries.
3. Household Expenses and Drawings for personal or private use.

4. Income Tax or Super Tax paid.
5. Bonuses paid.
6. Bad Debts and Discounts not actually written off,  
i. e., Reserves for Bad Debts and Discounts  
provided in anticipation.
7. Amount transferred to Reserves and other Funds.

**NOTE.**—*Income Tax, an Appropriation of Profits:*—

Legally, Income Tax is an Appropriation of Profits and not a charge thereon, although in the majority of cases it is treated as such in the Accounts of Trading Concerns, inasmuch as it is charged to the Profit and Loss Account and not to the Profit and Loss Appropriation Account. It represents the proportion of the Profits, if any, due to the Government for the protection afforded to Trade and Commerce, thus enabling the Profits to be made; the Government being considered a Secret Partner of the Assessee for such purpose.

Besides, it will appear from the following case, that Income Tax has been treated as an appropriation for the purpose of computing Profits, on which Commission may be allowed to the Agents of a Company (hence Directors also) by way of a percentage thereon. The case under review was Suit No. 930 of 1916 of the Bombay High Court, *viz.*, Purshotamdas Hurkisonadas *v/s.* The Central India Spinning, Weaving and Manufacturing Co., Ltd., wherein the Hon. Mr. Justice Marten held that "Under the Indian Income Tax Acts, as well as the English Acts, Income Tax is in effect paid by a Company on behalf of its Shareholders, and if that is so, the English decision upon the question of the deduction of Income Tax, before the calculation of Agents' Commission, will be as applicable in India as in England."

Upon the basis of the above decision by the Hon. Mr. Justice Marten, the Commission of Company Agents (hence also the Directors') will be calculated on Profits, before Income Tax is deducted therefrom; and, so long as the decision stands, that should be the practice of Accountants and Auditors in the matter.

#### **4. Annual Returns by Assessee.**

##### *(a) Joint Stock (Limited) Companies.*

The principal Officer of every company shall prepare, on or before the 15th of June in each year, and deliver or

case to be delivered to the Collector a Return in the prescribed Form C, and verified in the words at the foot thereof, of the Total Income of the Company during the previous year.

(b) *Firms or Individuals.*

Where the Taxable Income is, in the Collector's opinion, Rs. 2,000 or upwards, the Collector shall serve a Notice upon the Assessee requiring him to furnish, within such period (usually 30 days) as may be specified in the Notice, a Return in the prescribed Form D, and verified in the words at the foot thereof, setting forth in detail the particulars of his Total Income from various sources during the previous year. If the above mentioned Returns are not sent in, the Collector shall make the Assessment to the best of his judgment.

It would not be out of place to mention here, that the filling in of these Returns (Income Tax Form D) sent out by the Authorities has been regarded by some merchants as calling for information which, as they say, the commercial community think is unwarranted. What difficulties these merchants feel it is not easy to understand.

The main points about the Returns are the furnishing of the necessary information, and the forfeiture of the right of Appeal against the Collector's Assessment in the case of parties who do not furnish a Return at all. Now one thing is obvious. The fair and equitable assessment of Income and Super Taxes is largely dependent on the possession of accurate data by the Authorities. This being so, no purpose is served by these merchants saying that the Income Tax Forms sent out by the Authorities call for information that is regarded as unwarranted. This opposition on the part of the said commercial community to supply accurate data regarding their income and other necessary particulars cannot be regarded as anything but a selfish and unjust attempt on the part of Income Tax-payers to conceal their real position.

It is well known that the Income Tax Authorities are put to much trouble and inconvenience by the fact that they have to assess many people by their own calculations of approximate income, which is at best a guess. This

system enables evasion on a large scale by people who make large incomes, as well as causes hardship to some. To render the Assessment-work and Tax-collection easier and more accurate, under the new Act, Returns are sent to Income Tax-payers, calling for accurate data. To induce the tax-payers to furnish Returns, the penalty of forfeiture of the right of Appeal against the Assessment of the Income Tax Collector is imposed.

(c) *Illustration*.—From the following particulars of the Income of Dr. M. Nowroji, of 103, Cumballa Hill, prepare the Annual Return (Form D), for the Income Tax Assessment 1918-1919:—

He is the Secretary of the X. Y. Drug Manufacturing Co., Ltd., where he receives (for part-time appointment) a monthly Salary of Rs. 350 (less Tax @ 5 pies in the rupee). He holds 15 Bank of Bombay Shares of Rs. 500 each, yielding a dividend of 15% (Free of Tax); and 10 Shares in the Merchant Manufacturing Co., Ltd., of Rs. 1,000 each, carrying a Preference dividend of 6% (less Tax). He has contributed to the 5% War Loan (Free of Tax) to the extent of Rs. 20,000, and the 3½% Government Loan up to Rs. 10,000.

During his spare hours, he practises as a medical man (Hakim) at 35, Grant Road, the Net Annual Income of which practice comes to Rs. 817. He has advanced Rs. 5,000 to his uncle, B. Sorabji, on Mortgage of Property @ 7½%, and Rs. 4,000 on 6% Debentures in the Moslem Mills, Ltd. He owns a House Property in Gowalia Tank Road, the Annual Letting Value whereof is Rs. 4,500, and the Admissible Allowances therefrom are Rs. 1,782. He also holds 5 Shares of £10 each in the Paris Diamond Mining Co., Ltd., wherefrom he receives an annual dividend of 90 Francs (collected, and credited to his account, by his Bankers at Rs. 56).

He has a two-thirds share in the Firm of Merwanji and Billimoria, of 381, Hornby Road, the Taxable Income wherefrom amounts to Rs. 7,200 (the Firm being taxed on this Income of Rs. 7,200 @ 6 pies in the rupee). He has also entered into a joint venture with B. Contractor in a consignment of some mining ore, which results in a Net

**Profit of Rs. 900.** He is a Director in the Mehta Chemical Co., Ltd., where he gets Rs. 20 for every meeting attended by him. As he is a very busy man, he attended only nine of such meetings during the last year.

He has got a one-fifth share (being one of five brothers) in his Family Investments held in Trust, from the Income whereof he receives a net annual share of Rs. 75 (tax deducted). He also owns a plot of land at Sewree, the Ground Rent whereof is received at Rs. 41 per annum. He has been insured with the Reliable Insurance Society, for which he pays annually Rs. 795 by way of premium. He also subscribes annually Rs. 450 towards the Provident Fund of his Drug Co., where he is employed as a Secretary.

**ANNUAL RETURN (FORM D)**  
of Dr. M. Nowroji,  
for the Income Tax Year 1918-1919.  
**TOTAL INCOME**

Sources.	Gross Amount.	Amount of Tax deducted at Source.
Income received under the following heads, during the year ending 31st March 1918.	Rs. as. ps.	Rs. as. ps.
<b>1. Salaries, Wages etc.</b>		
Salary as Secretary of the Drug Mfg. Co. ... ..	4,200 0 0	109 6 0
<b>2. Dividends from Joint Stock Companies etc.</b>		
(a) <i>Free of Income Tax</i> :—		
Bombay Bank Shares ...	1,125 0 0	Nil.
(b) <i>Income Tax Deducted</i> :—		
Merchant Mfg. Co. Shares	600 0 0	37 8 0
<b>3. Interest on Securities.</b>		
5% War Loan	1,350 0 0	21 14 0
(Free of Tax) Rs. 1,000 0 0		
3½% Govt. Loan		
(Less Tax) Rs. 350 0 0		
<b>Cfd.</b>	<b>7,275 0 0</b>	<b>168 12 0</b>

Sources.	Gross Amount.	Amount of Tax deducted at Source.
	Rs. as. ps.	Rs. as. ps.
Bfd. Rs.	7,275 0 0	168 12 0
<b>4. Profession.</b>		
Net Income from Medical Practice ... ..	817 0 0	<i>Nil.</i>
<b>5. Interest on Mortgage &amp;c.</b>		
On Mortgage @ $7\frac{1}{2}\%$ 375 0 0	615 0 0	15 0 0
On 6% Debentures (less Tax) ... 240 0 0		
<b>6. House Property etc.</b>		
Annual Letting Value ... Rs. 5,000 0 0	3,218 0 0	<i>Nil.</i>
Less Admissible Allowances Rs. 1,782 0 0		
<b>7. Income Outside British India, etc.</b>		
Paris Diamond Mining Shares ... ..	56 0 0	<i>Nil.</i>
<b>8. Business, Trade, etc.</b>		
Income from the Firm of Merwanji & Billimoria ...	4,800 0 0	150 0 0
<b>9. Profit Accrued from Transactions etc.</b>		
Profit from Joint Venture...	900 0 0	<i>Nil.</i>
<b>10. All Other Income etc.</b>		
Director's Fees ... ..	180 0 0	<i>Nil.</i>
<b>11. Share in Joint Family Income.</b>		
Income from Family Investments ... ..	80 0 0	5 0 0
<b>12. Ground Rent. From a plot of Land at Sewree ...</b>	41 0 0	<i>Nil.</i>
Grand Total	17,982 0 0	338 12 0
<b>13. Total Life Insurance Premiums etc.</b>	795 0 0	.....
Subscriptions to Provident Fund	450 0 0	1,245 0 0



PRINCIPAL PLACE OF RESIDENCE ... ..	103, Cumballa Hill.
PRINCIPAL PLACE OF BUSINESS	381, Hornby Road.
OTHER PLACE OF BUSINESS ...	35, Grant Road.
NAME OR NAMES UNDER WHICH BUSINESS IS CONDUCTED ...	1. Merwanji & Billimoria. 2. Dr. M. N. Navsariwalla.
NAME AND ADDRESS OF PARTNERS	Jamshed Pestonji Billimoria, 351, Gowalia Tank Rd.
WHETHER AGENT, TRUSTEE ETC.	<i>Nil.</i>
EMPLOYER'S NAME ... ..	X. Y. Drug Mfg. Co., Ltd.
EMPLOYER'S ADDRESS ... ..	657, Parel Road.
MONTHLY RATE OF SALARY ...	Rs. 350.

I, Merwanji Nowroji Navsariwalla, declare that the information given in this Return is correct, that the Income shown in this Return is truly estimated on each of the sources therein mentioned, that it has actually accrued within the period therein stated, and that I have no other sources of income. The income shown accrued in the year ending 31st March 1918.

MERWANJI NOWROJI NAVSARIWALLA.

Dated, 23rd September 1918.

(Signature).

## 5 Assessment.

If the Collector is satisfied that the Returns mentioned in the foregoing section are correct and complete, he shall assess the sum payable by the Assessee, for the year in which the Return is made, on the basis of such Return.

The sum to be assessed in every case shall be a sum calculated on the aggregate of the Assessee's income in the previous year, at the rate applicable to his total income in that year.

#### **6. Inspection of Books, Accounts etc.**

If the Collector has reason to believe that a Return made under section 17 of the Act is incorrect or incomplete, he shall serve on the person who made the Return a Notice requiring him, on a date to be therein mentioned, either to attend at the Collector's Office and produce, or to cause to be there produced for the inspection of the Collector, such Books, Accounts and Documents, as the Collector may require, and any evidence on which the Assessee may rely in support of the Return.

On the day specified in the Notice, or as soon afterwards as may be, the Collector, after examining such books, accounts, documents etc., and hearing any evidence which the Assessee may produce and such other evidence as the Collector may require, shall, by an order in writing, determine the Total Income of the Assessee for the previous year, and assess the sum payable by the Assessee for the year in which the Return is made on the basis of such determination.

If the Assessee fails to attend or to produce the books, accounts etc., the Collector shall make the Assessment to the best of his judgment.

The Collector or Commissioner, or any person authorized in writing in this behalf by the Collector or Commissioner, may inspect and, if necessary, take copies or cause copies to be taken of the Register of Members of any Company or of any entry in such Register.

#### **7. Notice of Demand.**

When the Collector has determined the Tax to be payable by an Assessee, as in the foregoing paragraphs, he shall serve on the Assessee a Notice of Demand in the prescribed Form E, specifying the sum so payable and the time and place when and where the tax is to be paid.

The Collector may, at any time within one year from the date of any demand made upon an assessee, rectify any mistake in connection therewith, which has been brought to his notice by such assessee, and make a refund to such assessee in respect thereof.

### **8. Petition Against Assessment.**

Any person objecting to the amount or the rate at which he is assessed, or denying his liability to be assessed, may apply by petition, made in the Form F, and verified in the words given at the foot thereof, to the Commissioner, to have the assessment reduced or cancelled.

The petition shall, ordinarily, be presented within 30 days of receipt of the Notice of Demand, but the Commissioner may receive a petition after the expiration of the period, if he is satisfied that the objector has sufficient cause for not presenting it within that period.

The Commissioner shall fix a day and place for the hearing of the petition, and, on the day and place so fixed or their adjournment, shall hear the petition and pass such order thereon as he thinks fit, whereafter his decision would be final.

### **9. Preparation of Accounts for Income Tax Assessment.**

As the rules and regulations prescribed by the Income Tax Act are not easily understood by laymen, it would be advisable for them to consult Qualified Accountants before preparing Accounts to show the exact Assessable Profits or Taxable Income.

The Income Tax year (Financial Year of the Government) begins on 1st. April and ends on 31st. March. The Taxpayer would, therefore, do well to close the Accounts on 31st. March in each year, in which case he would be assessed on the Profits for the 12 months preceding the Income Tax Year; i. e., for the Income Tax year 1918-1919 (beginning 1st. April 1918) he would be assessed on the Profits of the 12 months ending 31st. March 1918.

If the Taxpayer does not close his Accounts on 31st. March, he will have to pay the tax on the previous completed year's profits. As for example, if he closes his

Accounts on 30th. June, or 30th. September, or 31st. December, he will be assessed on the profits of the year ending 30th. June, or 30th. September or 31st. December 1917, respectively, for Income Tax year 1918-19. Similarly, if Accounts be closed at "Divali" time, for the Assessment 1918-19, the assessee will have to pay the tax on the profits for the Samvat year ending Aso vad amas 1973; or Shuk year ending 30th. Falgun 1839; or Marwari year; or any other period of 12 months ending within the year ending 31st. March 1918.

#### (A) FIRMS OR SOLE TRADERS.

Profit and Loss Account for ascertaining the Assessable Profits or Taxable Income may be prepared from the Business Annual Profit and Loss Account in two ways, *viz.*, (1) By starting with Gross Profits, or (2) By starting with Net Profits.

#### I. BY STARTING WITH GROSS PROFITS.

##### (a) Credit Side:—

1. Gross Profits, as per Trading Account, *i. e.*, Profit on Sales without taking into consideration any Expenses incurred in effecting same.
2. Any other income which arises in the ordinary course of regular business, *e. g.*, Discounts and Allowances from Creditors, Rent from subletting part of the Premises etc.

NOTE.—No Capital Profit, or Casual Receipt, or income which has been received less tax, should be taken here.

##### (b) Debit Side:—

1. Expenses absolutely necessary for carrying on the business, *e. g.*, Rent, Salaries, Trade Expenses, Interest, Printing, Stationery, Postages, Telegrams, Repairs, Fire Insurance Premium, Rates and Taxes etc.
2. Losses arising in the ordinary course of regular business, *e. g.*, Bad Debts, Discounts and Allowances, Depreciation, Obsolescence Loss, etc.
3. Annual Letting Value of Premises (by way of rent), if same be owned by, and used for, the business.

**NOTE.**—The following items should not be taken here, viz., Appropriations of Profits (*e. g.*, Interest on Proprietor's or Partner's Capital, Proprietor's or Partner's Salaries or Drawings, Income and Super Tax, Amounts transferred to Reserve, Bonus or other Funds etc.); Capital, Casual or Speculation Losses; Capital Expenditure; Under-Insurance Loss; Gifts, Charities and Presents; and all other Losses and Expenses not incurred in the ordinary course of regular business.

*Illustration*—From the Business Profit and Loss Account of the Firm of Bapuji and Peroshaw given below, for the year ending 31st. March 1918, prepare an adjusted account for Income Tax Assessment 1918-1919. It is assumed that the full amount of Depreciation has been allowed by the Collector, and that the Repairs are to be borne by the Firm.

Dr. PROFIT & LOSS ACCOUNT.		Cr.	
	Rs.		Rs.
To Trade Expenses...	228	By Gross Profits, as	
„ Partners' Salaries	1,000	per Trading A/c.	6,207
„ Rent ... ..	1,200	„ Interest on Bank	
„ Gifts ... ..	20	Current A/c. ...	32
„ Salaries & Wages	900	„ Discounts and	
„ Charities ... ..	100	Allowances ...	171
„ Printing & Stationery	81	„ Profit on Sale of...	
„ Postages & Telegrams	57	Investments ...	389
„ Rates and Taxes	82	„ Rent from sub-	
„ Interest on Capital	721	letting ...	205
„ Repairs to Buildings	570	„ Dividends (less	
„ Loss by Fire (irre-		tax deducted) ...	457
coverable) ...	500		
„ Replacing Machi-			
nery parts ...	600		
„ Income Tax ...	100		
„ Fire Insurance Premium	75		
„ Bad Debts (written off)	219		
„ Discounts and Allow-			
ances ... ..	207		
„ Loss on Sale of In-			
vestment ... ..	84		

Cfd. Rs. 6,744

Cfd. Rs. 7,461

	Bfd. Rs. 6,744	Bfd. Rs. 7,461
To Concert Tickets ...	15	
„ Depreciation ...	381	
„ Net Profits, transferred to Capital Accounts ...	321	
	<u>Rs. 7,461</u>	<u>Rs. 7,461</u>

Dr. PROFIT & LOSS ACCOUNT, ADJUSTED FOR Cr.  
INCOME TAX.

To Trade Expenses ...	Rs. 228	By Gross Profits, as per	Rs.
„ Rent ...	1,200	Trading A/c. ...	6,207
„ Salaries and Wages ...	900	„ Interest on Bank A/c. ...	32
„ Printing & Stationery ...	81	„ Discounts and Allowances ...	171
„ Postages & Telegrams ...	57	„ Rent from subletting ...	205
„ Rates and Taxes ...	82		
„ Repairs to Buildings ...	570		
„ Fire Insurance Premium ...	75		
„ Bad Debts ...	219		
„ Discounts & Allowances ...	207		
„ Depreciation ...	381		
„ Balance, being Taxable or Assessable Profits ...	2,615		
	<u>Rs. 6,615</u>		<u>Rs. 6,615</u>

The Firm will be assessed on Rs. 2,615.

## II. BY STARTING WITH NET PROFITS.

### (a) Credit Side:—

1. Net Profits, transferred to Capital Accounts, as per the business Profit and Loss Account.
2. Expenses and Losses charged to the business Profit and Loss Account, before arriving at the above Net Profits, which therefore reduced the said Net Profits and which ought not to have been so charged for Income Tax purposes, inasmuch as such Expenses or Losses were

either Appropriations of Profits, or were not incurred in the ordinary course of regular business, or were of a Capital or Casual nature (see Note to paragraph (b) on page 28).

**(b) Debit Side :—**

1. Income or Profit credited to Business Profit and Loss Account, before arriving at the above Net Profits and therefore included in the latter, which ought not to have been credited to Profit and Loss Account for Income Tax purposes, inasmuch as such income or profit was either received less tax, or was not earned in the ordinary course of regular business, or was of a Capital or Casual nature (see Note to para. (a) on page 27).
2. If premises be owned by, and used for, the business and no rent has been charged to business Profit and Loss a/c., the Annual Letting Value thereof (i. e. exact amount on which House Property Tax was paid) may be charged here.

*Illustration.*—Taking for example the same Profit & Loss Account, as given on page 29, the Assessable Profits by this method would be arrived at as follows:

**Dr. PROFIT & LOSS ACCOUNT, ADJUSTED Cr.  
FOR INCOME TAX.**

To Dividends (less Tax) Rs. 457		By Net Profits, as per	
„ Profit on the Sale		business Profit &	
of Investments ...	389	Loss Account	Rs. 321
„ Balance, being Tax-		„ Partners' Salaries	1,000
able or Assessable		„ Gifts ...	20
Profits ...	2,615	„ Charities ...	100
		„ Interest on Capital	721
		„ Loss by Fire (irre-	
		coverable) ...	500
		„ Replacement of Ma-	
		chinery parts ...	600
		„ Income Tax ...	100

Cfd. Rs. 3,461

Cfd. Rs. 3,362

Bfd. Rs. 3,461

Bfd. Rs. 3,302

By Loss on Sale of In-  
vestment ... 84  
,, Concert Tickets ... 15

Rs. 3,461

Rs. 3,461

**(B) JOINT STOCK (LIMITED) COMPANIES.**

The two methods of preparing Accounts for Income Tax purposes in Joint Stock Cos. are similar to those in the case of Firms, as stated on pages 27 to 31.

*Illustration.*—The published Profit and Loss Account of the Patel Manufacturing Co., Ltd., is given below. The Premises were owned by the Company, the annual letting value whereof is Rs. 5,275. The Collector allowed only 5% by way of Depreciation of Machinery. The Company had deducted Income-Tax before paying the Interest to the Debenture-holders. Adjust the Profit & Loss Account for the Income Tax Assessment 1918-1919.

Dr.	PROFIT & LOSS ACCOUNT, FOR THE YEAR 1917.	Cr.
To Salaries & Wages Rs. 2,350	By Gross Profits, as Rs.	
„ Pension to late Sec- retary ... 500	per Trading A/c. 35,218	
„ Trade Expenses ... 7,237	„ Profit on re-issue of Forfeited Shares 285	
„ Preliminary Ex- penses (closed)... 3,231	„ Discounts earned ... 578	
„ Discounts and Al- lowances ... 1,009	„ Dividends (less Tax) 1,025	
„ Interest on Deben- tures ... 3,500	„ Premium on issue of Shares ... 2,000	
„ Auditors' and Direc- tors' Fees ... 825	„ Transfer Fee ... 190	
„ Fire Insurance Pre- mium ... 329	„ Sundry Receipts ... 25	
„ Loss on Sale of Machinery ... 725		
Cfd. Rs. 19,706	Cfd. Rs. 39,321	



	Bfd. Rs.	19,706		Bfd. Rs.	39,321
To Bad Debts (written off) ...	...	891			
„ Depreciation of Machinery ( $7\frac{1}{2}\%$ ) ...	...	1,950			
„ Income Tax ...	...	821			
„ Subscription to Certs ...	...	1,000	✓		
„ Reserves for Bad Debts etc. ...	...	322			
„ Net Profits... ..	...	14,631			
	R.	<u>39,321</u>		R.	<u>39,321</u>

(a) *By Starting with Gross Profits.*

Dr. PROFIT AND LOSS ACCOUNT, ADJUSTED Cr.  
FOR INCOME TAX.

To Annual Letting Value ...	R.	5,275	By Gross Profits	R.	35,218
„ Salaries & Wages ...	...	2,350	„ Discounts earned	...	578
„ Trade expenses ...	...	7,237	„ Transfer Fees ...	...	190
„ Discounts and Allowances ...	...	1,009	„ Sundry Receipts	...	25
„ Directors and Auditors' Fees ...	...	825			
„ Fire Insurance Premium ...	...	329			
„ Bad Debts (written off) ...	...	891			
„ Depreciation of Machinery ( $5\%$ ) ...	...	1,300			
„ Balance, being Assessable or Taxable Profits ...	...	16,795			
	R.	<u>36,011</u>		R.	<u>36,011</u>

(b) *By Starting with Net Profits.*

Dr. PROFIT AND LOSS ACCOUNT, ADJUSTED Cr.  
FOR INCOME TAX.

	Rs.	By	Net Profits, as per	Rs.
To Annual Letting Value ... ..	5,275		Profit and Loss Account ...	14,631
To Profit on re-issue of Forfeited Shares ...	285	„	Pension to late Secretary ...	500
„ Dividends (less tax) ...	1,025	„	Preliminary Expenses ...	3,231
„ Premium on issue of Shares ... ..	2,000	„	Interest on Debentures ...	3,500
„ Balance, being Taxable Profits (see above) ... ..	16,795	„	Loss on Sale of Machinery ...	725
		„	Excess Depreciation of Machinery ( $2\frac{1}{2}\%$ ) ...	650
		„	Income Tax ...	821
		„	Subscription to Concerts ...	1,000
		„	Reserves for Bad Debts & Discounts.	322
	<u>Rs. 25,380</u>			<u>Rs. 25,380</u>

10. **Treatment of Income Tax Account in Joint Stock Companies.**

Where a Company declares Dividends on its Shares, and pays Interest on Debentures, Free of Income Tax, the whole Income Tax Assessment is borne by the Company. If the tax is, however, deducted by the Company before the payment of such dividend and interest to the Shareholders and Debenture-holders respectively, the difference between the full Tax shown by the Company's Assessment and the Tax so deducted from Shareholders and Debenture-holders will only have to be suffered by the Company and, therefore, charged to its Profit and Loss Account.

*Illustration.*—The Krishna Rao Spinning and Weaving Mills Co., Ltd., had a paid up Capital of Rs. 1,10,000 divided

into an equal number of Ordinary and Preference Shares of Rs. 100 each. The Company, whose Assessable Profits for the year 1917 was Rs. 86,900, had also borrowed Rs. 1,00,000 on 5% Debenture Bonds of Rs. 100 each, and had declared an annual dividend of 6% on Preference Shares and 5% on Ordinary Shares. The above Profits had been arrived at before charging Interest on Debentures. Ascertain the amount of Income Tax to be debited to the Company's Profit and Loss Account.

(a) *Where Dividends and Interest are paid Free of Income Tax.*

As the Shareholders and Debenture-holders are given the Dividends and the Interest respectively Free of Tax, they will not pay any Tax on such Income so received by them; and, therefore, the Company will have to pay the Tax on the whole amount of Profits of Rs. 86,900, @ 1 anna in the rupee. The whole amount of the Tax of Rs. 5,431-4-0 will be debited to the Company's Profit & Loss Account.

(b) *Where Dividends and Interest are paid Less Income Tax.*

As the Company is going to deduct the Tax before paying the Dividends and the Interest, the amount suffered by the Company would be the Tax on the Profits not distributed amongst the Shareholders and Debenture-holders, viz., Rs. 1,337-8-0, that is 1 anna in the rupee on Rs. 21,400, as shown below:—

Dr.		INCOME TAX ACCOUNT.		Cr.	
To	Income Tax Collector, being the Income Tax Assessment, at 1 anna in the rupee, on Rs. 86,900	Rs.	a. p.	By	Pref. Share Dividend A/c., being 1 anna in the rupee on Rs. 33,000 ... 2,062—8-0
				„	Ord. Share Dividend A/c., etc., on Rs. 27,500 ... 1,718-12-0
				„	Deb. Interest A/c., etc., on Rs. 5,000 312—8-0
				„	Profit & Loss A/c., etc., on Rs. 21,400 1,337—8-0
		Rs.	5,431-4-0		Rs. 5,431-4-0

## II. Allocation of Partnership Tax.

A Firm is assessed jointly in the Firm-name, and not separately in the name of individual Partners constituting such Firm.

If a Firm has been constituted under a registered instrument of Partnership (i. e., Partnership Deed), as provided in Sections 253 and 256 of the Indian Companies Act, 1918, specifying the individual shares of the Partners, and if the Taxable Income of such Firm is Rs. 2,000 per annum or upwards, Income Tax shall be levied at the maximum rate specified in the Graduated Scale for the Rates of Tax (see Chapter VII, section 13), *viz.*, 1 anna in the rupee. This is one of the changes brought about by the Income Tax Act, 1918. This alteration of the Law is a kind of extension of the principle of "Collection of Tax at the Source", and places the liability of paying the tax on the Firm as a whole, rather than making each partner liable for his proportion only.

If the Firm be not regularly constituted as above, the Tax payable by the Firm as a whole would be in accordance with the said Graduated Scale. Whether the Firm pays the Tax at the said maximum rate or at the rate varying with the profits, the rights of the individual partners to claim Exemption or Relief are not affected, as shown in Statements at the end of this chapter.

The correct apportionment of Taxable Income of a Firm amongst the partners has got two advantages:—(a) It prevents an improper allocation of the burden of the Tax amongst the partners, even if no claim for relief be made, and (b) it enables the individual partners to ascertain what rights, if any, they may have. Taking these advantages *seriatim*:—

### *I. Where no Claim for Relief is Made.*

It must be remembered that the Firm's Taxable Income should not be distributed amongst the Partners in the proportions of their sharing of profits and losses, even though the individual partners make no claim for relief or exemption from Income Tax. Items like Interest on Capital and Partners' Salaries, which are mere Appropriations of Profits and

which are included in the Firm's Taxable Income, should not be shared by the partners in the said proportions, inasmuch as they have no direct relation with the Taxable Income; but, that they depend more or less on the Capitals of individual partners and on the time devoted to the management of the business by individual partners. It is, therefore, necessary to make careful adjustment to see that each partner is charged with the proper proportion of the Tax applicable to him only.

For this purpose, Interest on Capitals, Partners' Salaries etc., would be deducted (temporarily) from the Taxable Income, in order to arrive at the "Divisible" Income, which would be distributed amongst the partners, in the proportions in which they share profits and losses. To each partner's share so arrived at would be added his corresponding share of Interest on Capitals and Partners' Salaries. Now, the sum of the shares of Partners so arrived at would be exactly equal to the Taxable Income of the Firm, which has been correctly allocated amongst individual partners.

*Illustration.*—L. Sethna, K. Mody and B. Sanjana, whose business Profit and Loss Account has been given below, are trading in partnership, under the style of L. K. B. & Co., Book-sellers and Commission Agents, sharing Profits and Losses equally. They have put in Capital, at Rs. 1,20,000, Rs. 70,000 and Rs. 20,000 respectively, upon which interest is to be credited @ 5% per annum. They have also agreed to receive Management Salaries, at Rs. 9,000, Rs. 6,000 and Rs. 3,000 respectively. They own their business Premises, at 737, Hornby Road, Annual Letting Value whereof is Rs. 10,000. Ascertain the amounts of Tax borne by each of the partners.

Dr.      PROFIT AND LOSS ACCOUNT, FOR      Cr.  
THE YEAR 1917.

To Trade Expenses.	Rs.	18,207	By Gross Pro-	Rs.
„ Interest on Ca-			fits, as per	
pital :—			Trading	
Sethna      ...	6,000		Account ..	1,35,217
Mody      ...	3,500		Dividends	
Sanjana    ...	1,000	10,500	(less Tax)	521
	Cfd. Rs.	28,707		Cfd. Rs. 1,35,738.

	Bfd. Rs. 28,707	Bfd. Rs. 1,35,738
To Partners' Salaries:—		
Sethna ...	9,000	
Mody ...	6,000	
Sanjana ...	3,000	18,000
	<hr/>	
„ Charities	367	
„ Net Profits	88,664	
	<hr/>	<hr/>
	Rs. 1,35,738	Rs. 1,35,738

Dr. PROFIT AND LOSS ACCOUNT, ADJUSTED Cr.  
FOR INCOME TAX.

To Dividends (less	Rs.	By Net Profits (as	Rs.
tax ...	521	above) ...	88,664
„ Annual Letting		„ Interest on Ca-	
Value... ..	10,000	pitals... ..	10,500
„ Balance, Being		„ Partners' Salaries	18,000
Firm's Taxable		„ Charities ...	367
Income ...	1,07,010		
	<hr/>		<hr/>
	Rs. 1,17,531		Rs. 1,17,531

The Firm's Taxable Income of Rs. 1,07,010 is not divisible amongst the partners equally, because it contains Interest on Capitals and Partners' Salaries, which are not shared equally but in proportion to their unequal Capitals. It is, therefore, necessary for the time being to take away from Taxable Income the Partners' Salaries and Interest on Capitals, in order to arrive at the "Divisible" Income, which may be apportioned among the partners in the proportions in which they share profits and losses.

Firm's Taxable Income	...	...	Rs. 1,07,010
Less Interest on Capitals...	Rs. 10,500		
„ Partners' Salaries	...	18,000...	28,500
		<hr/>	<hr/>
Firm's Divisible Income			Rs. 78,510

# STATEMENT ALLOCATING TAXABLE INCOME AMONGST THE PARTNERS.

<i>Particulars.</i>	<i>Total.</i>	<i>Sethna.</i>	<i>Mody.</i>	<i>Sanjana.</i>
Divisible Income (as above)	Rs. 78,510	26,170	26,170	26,170
Partners' Salaries ...	18,000	9,000	6,000	3,000
Interest on Capitals ...	10,500	6,000	3,500	1,000
<hr/>				
Taxable Income (as above)	Rs. 1,07,010	41,170	35,670	30,170

The above Statement shows the correct allocation of the Taxable Income of the Firm. When the Tax is paid, it should be divided according to each partner's Taxable Income from the Firm, as above, and charged to their respective Current Accounts and not to the Profit and Loss Account.

If the Taxable Income had been divided equally among the partners, the burden of the Tax would have been very unjustly allocated. The following Statement illustrates this :—

<i>Partner.</i>	<i>Correct Allocation.</i>	<i>Divided Equally.</i>	<i>Over- taxed.</i>	<i>Under- taxed.</i>
Sethna ...	Rs. 41,170	35,670	.....	5,500
Mody ...	35,670	35,670	.....	.....
Sanjana. ...	30,170	35,670	5,500	.....
<hr/>				
	Rs. 1,07,010	1,07,010	5,500	5,500

The Firm would pay the Tax of Rs. 6,688-2-0, viz., 1 anna in the rupee on Rs. 1,07,010, but the tax should not be debited to the Firm's Profit and Loss Account, because each of the partners in that case would suffer Rs. 2,229 6-0. This amount of Rs. 6,688-2-0 should be apportioned over the three partners in the proportions of Rs. 41,170, Rs. 35,670 and Rs. 30,170 respectively, so that Sethna's Current Account will be debited with Rs. 2,573-2-0, Mody's Account with Rs. 2,229-6-0 and Sanjana's Account with Rs. 1,885-10-0. Thus, the amounts of Tax borne by Sethna, Mody and Sanjana are Rs. 2,573-2-0, Rs. 2,229-6-0 and Rs. 1,885-10-0 respectively.

**NOTE:**—If the partners were receiving Management Salaries and Interest on Capitals in the same proportions in which they share profits and losses, and not unequally as in the above illustration, the Taxable Income of Rs. 1,07,010 would also be the Divisible Income, and each of them would bear the Tax on Rs. 35,670, *viz.*, Rs. 2,229-6-0, and there would be no need of preparing the above Statement of Allocation.

## II. Where a Claim for Relief is Made.

*Illustration.*—Hiraji Dalal, Bapalal Nanavati and Fatehmahomed Merchant are in partnership having interest in the Firm as follows:—

Partner.	Share.	Capital.	Interest on Capital.	Salary.
Dalal...	... 1/2	Rs. 10,000	Rs. 500	Rs. 300
Nanavati ...	1/3	10,000	500	100
Merchant ...	1/6	Nil.	Nil.	150
		Rs. 20,000	1,000	550

The partners have no other sources of income except this business, the Profit and Loss Account whereof is given below. Ascertain the Taxable Income of the Firm and the amount of Tax borne by each Partner.

## Dr. PROFIT AND LOSS ACCOUNT. FOR THE Cr. YEAR ENDING 31st MARCH 1918.

To Office Expenses ...	Rs. 965	By Gross Profits, as	Rs.
„ Salaries and Wages	785	per Trading A/c.	7,852
„ Rent ...	900	„ Bad Debt. Dividends	62
„ Interest on Capitals	1,000	„ Discounts ...	72
„ Partners' Salaries ...	550	„ Profit on Sale of	
„ Fire Insurance Pre-		Investment ...	50
mium ...	29	„ Bank Interest ...	17
„ Income Tax ...	79		
„ Net Profits, transfer-			
red to Capital A/cs.	3,745		
	Rs. 8,053		Rs. 8,053



**Dr. PROFIT AND LOSS ACCOUNT, ADJUSTED Cr.  
FOR INCOME TAX.**

To Profit on Sale of Investment	Rs. 50	By Net Profits (as above)	Rs. 3,745
„ Firm's Taxable Income	5,324	„ Interest on Capitals	1,000
		„ Partners' Salaries	550
		„ Income Tax	79
	<u>Rs. 5,374</u>		<u>Rs. 5,374</u>

Taxable Income...	Rs. 5,324
Less Interest on Capitals	1,000
„ Partners' Salaries	550
	<u>1,550</u>

**DIVISIBLE INCOME      Rs. 3,774**

**STATEMENT ALLOCATING TAXABLE INCOME  
AMONGST THE PARTNERS.**

<i>Particulars.</i>	<i>Dalal.</i>	<i>Nanavati</i>	<i>Merchant.</i>	<i>Total.</i>
Divisible Income (as above)	Rs. 1,887	1,258	629	3,774
Interest on Capitals...	500	500	Nil.	1,000
Partners' Salaries	300	100	150	550
Taxable Income (as above)	<u>2,687</u>	<u>1,858</u>	<u>779</u>	<u>5,324</u>

**(a) Registered Partnership.**

If the Firm has been constituted under a registered instrument of partnership (Partnership Deed), as explained in section 11 the Tax paid by the Firm would amount to Rs. 332-12-0 (*viz.*, 1 anna in the rupee on Rs. 5,324). This amount of Tax would be debited to the Current Accounts of the Partners in the proportions of Rs. 2,687, Rs. 1,858 and Rs. 779 respectively, *viz.*, Rs. 167-15-0, Rs. 116-2-0 and Rs. 48-11-0 respectively.

(1) As Dalal's income from all sources, *viz.*, Rs. 2,687 exceeds Rs. 2,000 but is less than Rs. 5,000, he ought to have been assessed @ 5 pies in the rupee on Rs. 2,687. In the

business, however, he has been assessed on this amount @ 1 anna in the rupee, therefore he can claim a Refund of Tax of Rs. 97-15-5, viz., 7 pies in the rupee on Rs. 2,687.

(2) Nanavati's income from all sources is less than Rs. 2,000, therefore he is totally exempted from the Tax. As he has already paid, through the business, a Tax of Rs. 116-2-0, he will claim the whole sum back.

(3) Merchant's income from all sources is also less than Rs. 2,000, therefore he is totally exempted from Income Tax. As he has already paid, through the business, a Tax of Rs. 48-11-0, viz., 1 anna in the rupee on Rs. 779, he will claim a Refund of the whole of Rs. 48-11-0.

#### STATEMENT SHOWING NET TAX PAYABLE

<i>Partner.</i>	<i>Firm's Tax paid.</i>	<i>Refund claimed.</i>	<i>Net Tax payable.</i>
Dalal	Rs. 167-15-0	97-15-5	69-15-7
Nanavati ...	116-2-0	116-2-0	Nil.
Merchant ...	48-11-0	48-11-0	„
	Rs. 332-12-0	262-12-5	69-15-7

#### (b) Ordinary Partnership.

If the Firm has not been constituted under a registered instrument of partnership, it will pay a Tax of Rs. 166-6-0, viz., 6 pies in the rupee on Rs. 5,324, which Tax will be debited to the Partners' Current Accounts in the proportions of Rs. 2,687, Rs. 1,858 and Rs. 779 respectively, viz., Rs. 83-15-6 Rs. 58-1-0 and Rs. 24-5-6 respectively. The partners would claim relief, for the reasons stated in the previous paragraphs, as follows:—

#### STATEMENT SHOWING CLAIMS FOR REFUND

* <i>Partner.</i>	<i>Rate.</i>	<i>Profit.</i>	<i>Refund.</i>
Dalal ...	1 pie	Rs. 2,687	13-15-11
Nanavati ...	6 pies	1,858	58-1-0
Merchant ...	6 „	779	24-5-6
		Rs. 5,324	96-6-5

## STATEMENT SHOWING NET TAX PAYABLE

<i>Partner.</i>	<i>Firm's Tax paid.</i>	<i>Refund claimed.</i>	<i>Net Tax payable.</i>
Dalal ...	Rs. 83-15-6	13-15-11	69-15-7
Nanavati ...	58-1-0	58-1-0	Nil.
Merchant ...	24-5-6	24-5-6	„
	Rs. 166-6-0	96-6-5	69-15-7

From the comparison of the above two Statements, *viz.*, in (a) and in (b), showing Net Tax payable, it will be clear that after all Dalal bears a Net Tax of Rs. 69-15-7 while Nanavati and Merchant do not bear any Tax whatever.

## CHAPTER VI

## PROFESSIONAL EARNINGS

## 1. Assessable Profits.

The Tax under this head shall be payable by an Assessee on the excess of Income over Expenditure, in any profession or vocation followed by him.

The expenditure stated above must be of a Revenue nature, incurred solely for the purposes of the profession and must not include the Personal expenses of the Assessee. The income stated above shall also include Professional Fees paid in any part of India to a person ordinarily resident in British India.

The remarks concerning the returns by Assessee, Assessment, Inspection of Books, Notice of Demand, Rectification of Errors, Petition against Assessment etc., as mentioned in Chapter V, sections 4 to 8, also apply here.

## 2. Preparation of Accounts.

*Illustration.*—A. B. Govind, Practising Accountant, has prepared his Income and Expenditure Account, for the year ending 31st March 1919, as shown below. Prepare an Adjusted Account to show his Assessable Income for Income Tax Assessment 1919-20, and find out the amount of his income tax. He is a part-time Lecturer at a Government

College and an Examiner to the University, and also owns private Accountancy Classes.

Dr. INCOME AND EXPENDITURE ACCOUNT. Cr.

To Office Expenses	Rs. 2,735	By Audit Fees	Rs. 5,700
„ Class	837	„ Income from Legal	
„ Personal	6,205	Accountancy Jobs	3,806
„ Income Tax	283	„ Gross Dividends...	315
„ Subscriptions to		„ Private Class Fees	2,700
War Fund and		„ College Salary	
Concerts	500	(less Tax)	4,650
„ Life Insurance		„ Honorarium as Ex-	
Premium	750	aminer	1,750
„ Subscriptions to		„ Bank Interest	124
various Account-		„ Profit on Sale of	
tant Societies	85	Investment	150
„ Subscriptions to		„ Rent from Sub-	
Accountants' Be-		tenant	600
nevolent Fund	100	„ Present from Stu-	
„ Net Income	9,300	dents	1,000
	Rs. 20,795		Rs. 20,795

Dr. (A) INCOME AND EXPENDITURE ACCOUNT, Cr.  
ADJUSTED FOR INCOME TAX.

	Rs.	By Net Income (as	Rs.
To Gross Dividends	315	above)	9,300
„ College Salary (less		„ Personal Expenses	6,205
Tax	4,650	„ Income Tax	283
„ Profit on Sale of		„ Subscriptions to	
Investments	150	War Fund and	
„ Present from Stu-		Concerts	500
dents	1,000	„ Subscriptions to	
„ TAXABLE IN-		Accountants' Be-	
COME	11,023	nevolent Fund	100
		„ Life Insurance Pre-	
		mium	750
	Rs. 17,138		Rs. 17,138

Or

Dr. (B) INCOME AND EXPENDITURE ACCOUNT, Cr.  
ADJUSTED FOR INCOME TAX.

	Rs.		Rs.
To Office Expenses ...	2,735	By Audit Fees ...	5,700
„ Class „ ...	837	„ Income from Le-	
„ Subscriptions to va-		gal Accountancy	
rious Accountant-		Jobs ...	3,806
Societies ...	85	„ Private Class Fees	2,700
„ TAXABLE IN-		„ Honorarium as	
COME ...	11,023	Examiner ...	1,750
		„ Bank Interest ...	124
		„ Rent from Sub-	
		tenant ...	600
	<u>Rs. 14,680</u>		<u>Rs. 14,680</u>

Though Govind will pay the Income Tax on Rs. 10,273, in order to fix the Rate of Tax thereon, his Income from other sources already taxed must also be aggregated, as follows :—

**(a) Income Already Taxed :—**

- Dividends from Investments  
(taxed @ 1 anna) ... Rs. 315
- College Salary (taxed @  
6 pies) ... 4,800 5,115

**(b) Income not Taxed (as above) :—** 11,023

TOTAL INCOME @ 9 pies Rs. 16,138

**(c) Net Taxable Income :—**

	Rs.
Income as per (b) ...	11,023
Less Insurance Pre-	
mium paid ...	750
	<u>10,273</u>

As Govind's Total Income is less than Rs. 25,000 and more than Rs. 10,000, his income from all sources ought to have been taxed @ 9 pies in the rupee. His dividends have,

however, been taxed @ 12 pies in the rupee; he can, therefore, claim a refund of 3 pies in the rupee on Rs. 315. But his salary has been taxed @ 6 pies in the rupee, and he will therefore have to pay a further tax of 3 pies in the rupee on Rs. 4,800. He will of course have to pay the tax on Rs. 10,273, in the first instance, together with that on Rs. 4,800, and afterwards claim a refund of tax on Rs. 315. The total net amount of tax payable by him is Rs. 551-10-0, as shown below :—

Tax of 9 pies in the rupee on Rs. 10,273	481-8-9
"    3    "    "    "    "    4,800	75-0-0
	<hr/>
	556-8-9
Less Refund of 3 pies in the rupee	
on Rs. 315 ... ..	4-14-9
	<hr/>
NET TAX PAYABLE Rs.	<u>551-10-0</u>

## CHAPTER VII

### MISCELLANEOUS

#### 1. Income from other Sources.

Income and profits of every kind and from every source to which this Act applies (other than those included in the preceding five Chapters), except Agricultural Income, shall be taxable under this head, e. g. Interest on Mortgage, Loan, etc.; Interest on Banking Accounts; Salary not taxed by Employers; Income accrued outside, and received in, British India; Profit on other transactions; Directors' Fees etc.; Joint Family Income; Ground Rent, etc.

Such income or profits shall be computed after making allowance for any expenditure or loss (not of a Capital nature) incurred solely for the purpose of making such income or earning such profits, provided that no allowance shall be made on account of any Personal Expenses or Drawings of the Assessee.

## **2. Power to call for Information.**

The Collector or Commissioner may, for the purposes of this Act,

- (1) require any person to furnish a Return, in the prescribed Form G, containing, to the best of his knowledge, the name and address of every person employed in his service, who is receiving in virtue of such employment any income, not chargeable under Chapter II, of Rs. 900 per annum or upwards in Bombay and Rs. 600 per annum or upwards elsewhere;
- (2) require any Firm or Hindu undivided family to furnish him with a Return of the partners of the firm or the adult male members of the family, as the case may be, and their addresses;
- (3) require any person, whom he has reason to believe to be a Trustee, Guardian or Agent, to furnish him with a Return of the names of the persons for, or of, whom he is trustee, guardian or agent, and of their addresses.

## **3. Taxable Income.**

The aggregate amount of an Assessee's income from all sources chargeable under the above section 1 and chargeable under the preceding five Chapters, shall be the "Taxable Income" of such Assessee, subject to the following deductions:—

- (a) Any income which the assessee enjoys as a member of a Company, or of a Firm or of an undivided Hindu Family, where the Company, Firm or the Family is liable to the Tax.
- (b) Any sum paid by the assessee to effect an insurance on his own life or on that of his wife, not exceeding one-sixth of the income chargeable to Tax. A claim to such deduction or exemption must be made within one year from the last day of the year to which the claim relates, and must be supported by Premium Receipt (either original or duplicate) or such other proof as the Collector may deem sufficient.

In calculating the amount of Tax payable, the amount

due on a fraction of a rupee of the Taxable Income shall be ignored.

*Illustration.*—Ascertain the Taxable Income of Dr. M. Nowroji, of 103, Cumballa Hill, from the particulars of his income given in the illustration in Chapter V, section 4.

### STATEMENT FOR INCOME TAX ASSESSMENT 1918-1919.

#### (a) Income Already Taxed or not to be Taxed :—

Source of Income.	Rate.	Net Income received.	Tax deduc- ted at the source.	Gross Income
		Rs. a. p.	Rs. a. p.	Rs.
1. Salary as Secretary	Rs. 350	4,090-10-0	109-6-0	4,200
2. Bombay Bank Shares ... ..	15%	1,125-0-0	nil.	1,125
3. Merchant Mfg. Co. Shares ... ..	6%	562-8-0	37-8-0	600
4. War Loan... ..	5 <sup>6</sup> / <sub>9</sub>	1,000-0-0	nil.	1,000
5. Government Loan	3 <sup>1</sup> / <sub>2</sub> %	328-2-0	21-14-0	350
6. Moslem Mill Deben- tures ... ..	6%	225-0-0	15-0-0	240
7. Shares in Merwanji and Billimoria ...	2/3rd	4,650-0-0	150-0-0	4,800
8. Shares in Joint Family Income...	1/5th	75-0-0	5-0-0	80
		Rs. 12,056-4-0	338-12-0	12,395

#### (b) Income to be Taxed or Taxable Income :—

1. Income from Medical practice ...	Rs. 817
2. Interest from 7 <sup>1</sup> / <sub>2</sub> % Mortgage Loan ...	375
3. Income from House Property ...	3,218
4. Dividends of Diamond Shares ...	56
5. Income from Joint venture ...	900
6. Director's Fee ... ..	180
7. Ground Rent... ..	41
	5,587

TOTAL INCOME @ 9 pies Rs. 17,982



**(c) Net Taxable Income :—**

Income as per (b) ... ..	Rs. 5,587
Less Life Insurance Premium ..	795
Subscriptions to Provident Fund	450
	1,245
	<hr/>
	Rs. 4,342

As the Assessee's income from all sources is more than Rs. 10,000 but less than Rs. 25,000, he ought to pay the Tax @ 9 pies in the rupee on his income from all sources. He has, however, paid the Tax on Rs. 12,395 at various rates from 5 pies to 12 pies in the rupee. If he has paid the Tax on certain income at less than 9 pies, he will have to pay the balance now. If, on the other hand, he has paid on some income at more than 9 pies, he can claim a refund of the excess tax paid. He will also have to pay the Tax on his Taxable Income of Rs. 4,342 at 9 pies in the rupee.

The following statement will show the further tax payable (in addition to what he has already paid at the source), and the refund of tax claimable, by him:—

**STATEMENT SHOWING THE TAX PAYABLE  
AND RECOVERABLE**

<i>Source.</i>	<i>Income.</i>	<i>Rate.</i>	<i>Tax payable.</i>	<i>Tax re- coverable.</i>
	<i>Rs.</i>		<i>Rs. a. p.</i>	<i>Rs. a. p.</i>
<b>(a) Taxable Income :—</b>				
As shown above..	4,342	9 p.	203-8-6	nil
<b>(b) Income Already Taxed :—</b>				
1. Salary as Secretary ...	4,200	4 „	87-8-0	nil
2. Share in the Firm of Merwanji and Billimoria	4,800	3 „	75-0-0	nil
3. Merchant Mfg. Co. Shares	600	3 „	nil	9-6-0
4. Interest from Govt. Loan	350	3 „	nil	5-7-6
5. Debenture Interest ...	240	3 „	nil	3-12-0
6. Joint Family Investments	80	3 „	nil	1-4-0
			<hr/>	<hr/>
			Rs. 366-0-6	19-13-6

The Assessee cannot claim to set off Rs. 19-13-6 against the Tax of Rs. 366-0-6 and pay the balance to the Income

Tax Authorities, but he will first have to pay the full Tax of Rs. 366-0-6 and afterwards make a claim for the refund of 19-13-6, which he will get in due course.

#### 4. Rectification of Mistake

The Collector may, at any time within one year from the date of any demand made upon the Assessee, rectify any mistake in connection therewith, which has been brought to his notice by such assessee, and make a refund to such assessee in respect thereof.

#### 5. Insurance Companies.

##### (a) Rules for Determining Taxable Income :—

##### (1) *Life Assurance and Annuity Business.*

The Taxable Income of Insurance Companies carrying on Life Assurance or Annuity Business shall be determined by taking the Annual Average of the Total Profits disclosed by the last preceding Actuarial Valuation.

If the Tax deducted at the source from Interest on the Investments of these companies exceeds the Tax on Profits thus calculated, a refund may, as a concession, be permitted of the amount by which the deduction from interest on investments exceeds the tax payable on Profits.

##### (2) *Fire, Marine, Accident, Guarantee, Burglary Etc., Business :—*

In determining the Taxable Income of Insurance Companies carrying on other classes of Insurance business, such as Fire, Marine, Personal Accident, Employer's Liability, Fidelity Guarantee, Burglary, Third Party etc., the Taxable Income shall be determined by Annual calculation of Profits, but the amounts actually credited by any such insurance company in the ordinary accounts of its business for the previous year to any Fund established for the sole purpose of forming a Reserve to meet outstanding or unexpired liabilities to Policy-holders (including therein list of exceptional losses) shall be treated as Expenditure incurred solely for the purpose of earning the Profit of the business in that year.

##### (3) *Any Kind of Business.*

The amounts actually credited by an Insurance Company of any kind in the ordinary accounts of its business for

the previous year to its Investment Reserve Fund, for the purpose of meeting Depreciation in the value of its Securities, shall be treated as Expenditure incurred for the purpose of earning the Profits of the business, in determining the Taxable Income of the Insurance Company in that year.

### **(b) Actual Assessment.**

The above Rules relate merely to the determination of Taxable Income from different classes of Insurance Business. The Actual Assessment, however, of an Insurance Company carrying on more than one class of business should be determined as to its rate and amount by its aggregate Taxable Income from all classes of business, which it carries on.

## **6. Liability of Persons other than Assessee.**

### *(a) Guardians, Trustees and Agents.*

In the case of any Guardian, Trustee or Agent of any person being a minor, lunatic or idiot, or residing out of British India (called hereinafter "Beneficiaries") being in receipt on behalf of such beneficiary of any income chargeable under this Act, the Tax shall be levied upon and recoverable from such guardian, trustee or agent, as the case may be, in like manner and to the same amount as it would be leviable upon and recoverable from any such beneficiary if of full age, sound mind or resident in British India, and in direct receipt of such Income, and all the provisions of this Act shall apply accordingly.

If a guardian, trustee or agent disposes of the Assets and Funds in his hands, without paying or providing for any Income Tax due, he renders himself personally liable to pay the Tax, since he will be deemed to have misapplied the Assets and Funds.

### *(b) Courts of Wards etc.*

In the case of income chargeable under this Act, which is receivable by the Court of Wards, the Administrator-General, the Official Trustee, or by any receiver or manager appointed by or under any order of a Court, the Tax shall be levied upon and recoverable from such party in the like manner and to the same amount as it would be leviable upon and recoverable from any person on whose behalf such income

is received and all the provisions of this Act shall apply accordingly.

(c) *Non-Residents.*

In the case of any person residing out of British India all profits or gains arising to such person, through any business connections in British India, shall be deemed to be income accruing within British India, and shall be chargeable to Income Tax in the name of the agent of any such person, and such agent shall be deemed to be, for all the purposes of this Act, the Assessee in respect of such Income Tax.

(d) *Liquidators and Trustees in Bankruptcy.*

The liability of such persons is similar to those of Guardians and Agents, as stated in the above paragraph (a). If, therefore, a Liquidator or Trustee distributes the Assets in his hands without providing for Income Tax, he will have to pay the Tax out of his own pocket.

## 7. **Persons not Resident in British India.**

### (a) **Liability to Tax.**

The general liability of Non-residents has been explained above in paragraph 6 (c).

### (b) **Rules for Determining the Taxable Income.**

#### (1) *Indian Branches of a Non-Resident Company or Firm.*

For the purpose of the accurate assessment of the Indian Branches of a non-resident company or firm, the Collector may require the production of the Balance Sheet and Profit and Loss Account of the company or firm as a whole in addition to that of the Indian Branch, and also require the submission of a detailed Statement of all profits credited to the personal account of the Head Office on account of transactions carried out on its behalf.

Where the form adopted for the accounts and balance sheets of the Head Office or of the Indian Branch does not enable the share of the profits properly due to the Indian Branch to be accurately gauged, or where the company or firm keeps no accounts at all either at its head office abroad or at its Indian branch office, a percentage, having regard to

the nature of the business done, of the turnover of the business done by the Indian Branch should be taken to represent the income of the Indian branch for assessment purposes, and where this procedure proves unsuitable, any other more reliable method of calculation should be adopted.

The assessment of the Indian Branches of non-resident Insurance Companies (Life, Marine, Fire, Accident, Burglary, Fidelity, Guarantee etc.), in the absence of more reliable data, should be calculated on the proportion of the Total Profits of the companies corresponding to the proportion which their Indian Premium Income bears to their total premium income.

(2) *Indian Firms Allied to Non-Resident Firms.*

Such Firms, other than those constituted within His Majesty's dominions or branches thereof, which are not technically branches or agencies of such non-resident firms, should be assessed on the profits which may reasonably be deemed to have been derived from their Indian business, and where any difficulty is experienced in arriving at a basis for assessment, then on a percentage (fixed having regard to the nature of business done) of turnover or by any other suitable method.

(3) *Indian Agents of a Non-Resident Firm.*

An Indian agent of a non-resident firm of which he is not technically either a branch or a subsidiary firm is liable for the payment, on assessment of his principal, of the Tax on his principal's Indian income or profits, not only where the principal has established a regular agency in India, but also where he conducts his business regularly through a particular agent or casually through various agents. The liability of assessment should, however, not be enforced except where something definitely of the nature of an agency exists, and in the case of consignment business particularly no attempt should be made to tax the profits of the business merely because the non-resident consignor habitually uses a particular resident as his agent.

(4) *A Non-Resident Firm Consigning goods, from time to time, to its Casual Agent.*

Such Firm is not liable and no attempt should be made to tax the profits of the non-resident through the agent on this class of business.

*Illustrations.*—In all the above first three cases, it should be a question of fact whether the connection between the non-resident and the resident is such that an Agency can be held to exist, e. g.,

(1) Brown, Distiller in Glasgow, has agreed to sell to no one in India except Atmaram, his Agent in Bombay, provided that Atmaram gives Brown all or an agreed proportion of his trade. Atmaram purchases from Brown and sells to the trade at his own rates and all bad debts are borne by Atmaram. No attempt should be made to tax Brown on his profits. His position, in spite of his supplementary agreement with Atmaram is merely that of a seller to an Indian consignee who takes the risk and profits of the trade in India.

(2) Adamji, an Indian Resident and a large supplier of Mills Stores, has a monopoly for the sale in India of the Belting of a non-resident Baxter. Adamji is paid a commission by Baxter on all orders he sends either for his own stock or risk or in execution of order obtained. He does not confine his purchase of belting to Baxter. He stands all loss from bad debts and fixes the price to be asked for the goods. Here again the position of Baxter is merely that of a Seller to an Indian Consignee, and no attempt should be made to tax Baxter's profits.

(3) Adagra is the Indian Agent for hardware and sundries of Baldwin, a British Manufacturer. Adagra receives salary and commission from Baldwin, and bad debts fall on Baldwin. Here is a regular Agency and Baldwin's Indian Profits should be taxed through Adagra.

(4) Atlas is the Indian Agent for Bhalchandra & Co., a Firm in Baroda State, which consigns goods for sale in Bombay or China through Atlas. The business is purely a consignment business and Bhalchandra & Co's. Profits on his Indian trade should not be taxed.

In all these cases, A's remuneration or profits as Agents will be liable to the Tax.

## **8. Religious, Charitable and like Institutions.**

Where Investments are held by concerns like Church, Hospital, Library, Gymkhana, Museum, Accountant-Society

and similar institutions, whose only object is to promote the cause of Religion, Charity, Education, Health, Science etc., and wherein the income from investments is received less Tax, a Refund of the full amount of the Tax so deducted can be claimed, if the Collector be satisfied that the income under question has been applied solely towards the promotion of the said or similar causes.

### 9. Composition of Assessment.

If a Firm or Person applies to the Collector for a composition of Income Tax, the Collector may enter into agreement for such composition provided that :—

- (a) The agreements relate only to the Income on which the Tax will be assessed, and not to the amount of Tax payable,
- (b) No agreements are made with Companies or cover Income chargeable under the head "Salaries etc.," and "Interest on Securities",
- (c) No agreements cover a period of more than 3 years, and
- (d) The total number of agreements in force at any one time is under no circumstances in excess of 2 per cent. of the total number of Taxpayers assessed, excluding companies and persons assessed on account of incomes chargeable under the heads "Salaries etc." and "Interest on Securities", in the last financial year.

The agreement shall provide for the payment, in each year of the period comprised in the agreement, of amount of Composition ; and that amount shall be recoverable in the same manner as any other assessment stated in the foregoing pages. Such agreements also stipulate that, in case the compounding party becomes insolvent or dies before the expiration of the fixed period, the agreement is to continue at the option of the Collector, up to the 31st March following the day of death or insolvency. Of course, the Tax is payable out of the estate of the deceased or the insolvent. Such agreements prevent a great deal of unpleasantness, and save considerable waste of time and trouble in fixing assessments every year.

## 10. Refund of Income Tax.

If a Shareholder in a Company, who has received any dividend from the Company, or a Partner in a Firm whereon Income Tax has been levied at the Maximum Rate, in a case where such Firm is constituted under a registered instrument of partnership, who has received a share of the profits of such firm, or the owner of a Security, from the interest of which Income Tax has been deducted at the source, satisfies the Collector that his total income in the previous year was less than any one, as the case may be, of the amounts specified in the Graduated Scale of Rates for the Refund of Income Tax ( Chapter VII, section 14), he shall be entitled to a refund of a sum calculated on such dividend, share of profits or interest, at the rates specified in the said scale against each such amount, i. e., the difference between the tax at the maximum rate and the tax at the rate at which he ought to have been assessed.

### (a) *On Government Securities.*

The person claiming a refund shall present to the Collector

- (1) An application in the Form J, declaring truly therein his total income from all sources, except agricultural income, in the previous year with the declaration below the form duly signed before the Collector or attested by a Justice of the Peace or a Magistrate;
- (2) A return in the Form D, declaring truly therein his income from all sources (including Securities of the Government of India issued or declared Free of Income Tax, but excluding agriculture) in the previous year with the declaration below the form duly signed; and
- (3) A statement in the Form K, showing the details of the Securities of the Government of India other than securities issued or declared Free of Income Tax, held by him.

On receipt of the application, the return and the statement, the Collector may, after making such enquiries as he may deem necessary as to the total income of the applicant,



issue a Certificate of Refund in the Form L, if he is satisfied that the applicant is liable to tax at less than one anna in the rupee.

*(b) On Debentures and Other Securities of Local Authorities.*

The owner of the security claiming a refund shall present to the Collector an application in the Form J, a return in the Form D, and a statement in the Form K, and the Collector may issue a Certificate of Refund in the Form L, if he is satisfied that the applicant ought to have been taxed at less than one anna in the rupee.

*(c) On Dividends paid out of the Profits of Companies.*

The person claiming a refund on such dividend shall present to the Collector an application in the Form J, and a return in the Form D, and shall forward the counterpart of the Dividend Warrant or other proof showing the number of shares he holds in the Company and the total amount of dividends payable or paid to him. The Collector may after making such enquiries as to the total income of the applicant issue a Certificate of Refund in the Form N, if he is satisfied that the applicant is liable to tax at less than one anna in the rupee.

No refund shall be admissible on dividends not paid out of the Taxable Profits of the Company.

A refund shall not be paid except at a place where the Tax, in respect of which the refund is claimed, has been received. No claim to any refund shall be allowed, unless it is made within one year from the last day of the year to which the claim relates.

## **II. Summary of Claims for Refund of Income Tax.**

Claims for refund of Income Tax may be made under the following circumstances, if the claimant satisfies the Collector that his claim is in order and it is made in the manner prescribed above:—

- (1) If his income from all sources is less than Rs. 2,000, and the whole or part of such income has been received less tax, he can claim the full amount of such tax.

- (2) Where a person, either through ignorance of his rights or owing to the fact that his income is received less tax has not obtained an allowance in respect of his Life Insurance Premium, he may make a claim for the repayment of tax thereon.
- (3) Where a person, having credited his business Profit and Loss Account with taxed income on investments, omits to charge the same to his Profit and Loss Account adjusted for Income Tax purposes, he can make a claim for the refund of tax.
- (4) Where a person is engaged in more than one concern and where he pays the tax on the profits of one or more of such concerns without setting off the loss of one or more concerns against the taxed profits, he can claim a refund of tax on an amount equal to such loss or losses.
- (5) As the tax is paid in advance on the income of the previous year, if upon the discontinuing of the business, the annual profits fall short of last year, repayment can be claimed on the difference. Similarly, upon the discontinuance of the business, if the annual profits be less than Rs 2,000 or if any actual loss takes place, a repayment can be claimed of the full amount of tax paid on the profit of the last year.
- (6) Where an Institution, the income whereof is applied solely for Religious or Charitable purposes, receives income from its Investments taxed at the source, the full amount of the tax so deducted may be claimed back.

*Illustrations.—*

(1) FOR EXEMPTION FROM INCOME TAX.

John James is desirous of knowing exactly the amount on which he is legally liable to pay Income Tax, and, therefore, submits the following particulars of his income from all sources.

He owns a Grocer's Shop the annual taxable profit whereof is Rs. 352-2-0. He is the proprietor of a Cottage, the Annual Letting Value whereof is Rs. 450 and the Admi-

ssible Allowances relating thereto are in all Rs. 189. He is also serving as a Typist in a Firm where he gets Rs. 30 per month (without deducting Income Tax), and teaching a student privately at home for a monthly fee of Rs. 10. He has insured his life with two companies and pays a total annual premium of Rs. 195.

Prepare a statement showing his Taxable Income for the Assessment 1919-20.

#### STATEMENT FOR EXEMPTION FROM INCOME TAX.

1. Profits from Grocer's shop	...	...	Rs.	352	2	0
2. Net Income from House Property	...			261	0	0
3. Salary as a Typist	...	...		360	0	0
4. Student's Coaching Fee	...	...		120	0	0
TOTAL GROSS INCOME				1,093	2	0
<i>Less</i> —Life Insurance Premium (up to						
one-sixth of Rs. 1,093)				...	...	...
				182	3	0
TAXABLE INCOME				...	Rs.	910 15 0

As his income from all sources is less than Rs. 2,000 he is exempted from paying the Income Tax.

NOTE:—Though he has paid Rs. 195 for Life Insurance Premium, only Rs. 182-3-0 (viz., one-sixth of the Total Income of Rs. 1,093) would be allowed to be deducted for Income Tax purposes.

#### (2) FOR RELIEF FROM INCOME TAX.

P. F. Rose is the proprietor of a Millinery Business, the Taxable Income whereof is Rs. 3,750. He has also got a Hosiery Concern, which has made a Net Loss of Rs. 1,000. He is Music Teacher at the Maloni School of Music, whereby he derives a monthly gross salary of Rs. 200 (received less tax at 5 pies in the rupee).

He is the holder of  $5\frac{1}{2}\%$  War Bonds of Rs. 5,000 (Free of Tax) and  $3\frac{1}{2}\%$  Government Promissory Notes of Rs. 10,000. He owns a Bungalow at Cumballa Hill, the Annual Letting Value whereof is Rs. 9,000 and the Admissible Allowances wherefrom are Rs. 3,875. He is a Director in the Thread-needle Embroidery Co., Ltd., the annual fees whereof are

Rs. 300 (viz. Rs. 25 per monthly meeting attended). His interest from the Central Bank Current Account is Rs. 289, and from the Bombay Bank Deposit Account Rs. 1,500 (less Tax). He pays an annual premium for his Life Insurance of Rs. 600. Ascertain the Tax payable and the Relief claimable by him.

### STATEMENT FOR RELIEF FROM INCOME TAX.

#### (a) Income Already Taxed or not to be Taxed :—

Source.	Rate.	Net Income received.	Tax deducted at the source	Gross Income.
1. War Bonds ...	5½%	275—0-0	Nil	275
2. Government Promissory Notes ...	3½%	328—2-0	21—14-0	350
3. Bombay Bank Deposit ...	4%	1,500—0-0	100—0-0	1,600
4. Salary as Teacher Rs. 200 p. m. ...		2,337—8-0	62—8-0	2,400
		Rs. 4,440-10-0	184—6-0	4,625

#### (b) Income to be Taxed or Taxable Income :—

1. Profit of Millinery Business	3,750—0-0
2. Income from House Property	5,125—0-0
3. Directors' Fees ...	300—0-0
4. Interest on Central Bank Account ...	289—0-0
	9,464—0-0
Less Loss in Hosiery Business	1,000—0-0
	8,464

TOTAL INCOME                      Rs. 13,089

#### (c) Net Taxable Income :—

Income as above ...	...	...	8,464
Less Insurance Premium ...	...	...	600
			<u>Rs. 7,864</u>

Rose ought to have been taxed on the whole of his Income @ 9 pies in the rupee, inasmuch as his income from all sources is more than Rs. 10,000 but less than Rs. 25,000. He will, therefore, have to pay the Tax on Rs. 7,864 at 9 pies, and on a salary of Rs 2,400 at 4 pies, because the rate of Tax deducted from his salary at the source was only 5 pies in the rupee.

After paying the tax, he will claim a refund of tax on the Interest on Government Pro. Notes of Rs. 350 and on the Interest from Bank Deposit Account of Rs. 1,600, @ 3 pies in the rupee, inasmuch as the Tax was deducted at the source from these two items of interest at 1 anna in the rupee. The Tax payable and recoverable by him will be arrived at as shown below :—

#### STATEMENT SHOWING THE TAX PAYABLE AND RECOVERABLE.

<i>Source.</i>	<i>Income.</i>	<i>Rate.</i>	<i>Tax payable.</i>	<i>Tax re- coverable</i>
(a) Taxable Income, as above ...	Rs. 7,864	9 pies	368-10-0	nil.
(b) Income Already Taxed :—				
1. Teacher's Salary...	2,400	4 „	50-0-0	nil.
2. Govt. Pro. Notes...	350	3 „	nil.	5-7-6
3. Bank Deposit	1,600	3 „	nil.	25-0-0
			Rs. 418-10-0	30-7-6

Thus, Rose will first pay the Tax of Rs. 418-10-0 and then make a claim for Refund of Rs. 30-7-6, and he could not set off the Refund against the Tax.

#### 12. Accounts Prepared by Professional Accountants.

The Income Tax Authorities usually accept the Accounts prepared, and submitted to them, by duly Qualified Accountants on behalf of Taxpayers. The responsibility of such Accountants is of a twofold nature, *viz.*, firstly towards their Clients (the Taxpayers) and secondly towards the Government (Revenue Department). They must act in such a way, that neither do their Clients pay too much by way of Income or Super Tax, nor does the Government receive too little. In short, they should act quite impartially.

In simple cases, it may be unnecessary for the Accountant to see the Collector in person. If there be, however, any special or technical points involved, it is advisable for the former to meet the Collector and (from Accounts point of view) discuss the questions freely with him. Thus an amicable settlement may often be arrived at without delay, which will avoid much trouble in the future, both to the Collector as well as to the Assessee.

Adoption by Professional Accountants of a courteous attitude towards the Income Tax Officials would do much to maintain and increase that respect with which the work of such Accountants generally is now regarded by the said Officials. Very often the latter, when consulted on legal points arising in difficult cases, would be prepared to give an honest opinion based on principles, irrespective of result.

### 13. Graduated Scale for Rates of Income Tax.

	<i>Amount.</i>	<i>Rate.</i>
1.	When the Taxable Income is less than Rs. 2,000	Nil.
2.	" " " " " Rs. 2,000 or upwards, but less than Rs. 5,000 ...	5 pies in the rupee.
3.	" " " " " Rs. 5,000 or upwards, but less than Rs. 10,000...	6 do.
4.	" " " " " Rs. 10,000 or upwards, but less than Rs. 25,000...	9 do.
5.	" " " " " Rs. 25,000 or upwards ...	12 do.

### 14. Graduated Scale of Rates for Refund of Income Tax.

	<i>Amount.</i>	<i>Rate.</i>
1.	Less than Rs. 2,000 ... ..	12 pies in the rupee.
2.	Rs. 2,000 or upwards, but less than Rs. 5,000	7 do.
3.	" 5,000 " " " " 10,000	6 do.
4.	" 10,000 " " " " 25,000	3 do.

## CHAPTER VIII

### SUPER TAX

#### 1. Origin of the Tax.

Super Tax was introduced in India on 1st April 1917, more or less on the lines of the English Act which came into force in England in the year 1910. The method of computing Income for Super Tax, as prescribed by the Indian Act, is different from that prescribed by the English Act. Besides, in England the Tax is purely an Individual's Tax, while in India it is levied upon Individuals, Firms and Companies.

#### 2. Application of the Act.

The Super Tax Act of 1917 extends to the whole of British India, and applies also, within the dominions of Princes and States in India in alliance with His Majesty, to British subjects in those dominions, who are in the service of the Government or of a Local Authority established in the exercise of the powers conferred on the Governor-General in Council in that behalf.

#### 3. Taxable Income.

The Tax is payable in advance, for the year beginning 1st April in each year, on Total Income from all sources in excess of Rs. 50,000, accruing in the "previous" (see page 26) year, in addition to the Income Tax on the whole of such Total Income under the Income Tax Act, at a rate varying with the Profits, as shown in the Graduated Scale of Rates in section 10 hereafter, except the following :—

(1) Any rent or revenue derived from land, which is used for Agricultural purposes, and is either assessed to land-revenue or is subject to a local rate assessed and collected by Officials of the Government as such.

(2) Any income derived from—

(a) Agriculture, or

(b) The performance by a cultivator or receiver of rent in kind to render the produce raised or received by him fit to be taken to market, or

- c) The sale by a cultivator or receiver of rent in kind of the produce raised or received by him, when he does not keep a shop or stall for the sale of such produce.

(3) Any building owned and occupied by the receiver of the rent or revenue of any such land as is referred to in clause (1) or by the cultivator or receiver of rent in kind of any land with respect to which or the produce whereof any operation mentioned in clause (2) is carried on.

Provided that the building is on or in the immediate vicinity of the land, and is a building which the receiver of the rent or revenue or the cultivator or the receiver of the rent in kind by reason of his connection with the land, requires as a dwelling house, or as a store house, factory or other out-building.

(4) Any income derived from property solely employed for religious or public charitable purposes.

(5) Subject to any conditions and restrictions which may be prescribed, in this behalf, such portion, not exceeding one-sixth of the income in respect whereof a person would, but for this exception, be chargeable under this Act, as is deducted from the salary of the person under the authority or with the permission of the Government for the purpose of securing a deferred annuity to him, or a provision to his wife or children after his death, or is paid by the person to an Insurance Company in respect of an insurance or deferred annuity on his own life or on the life of his wife.

(6) In the case of a Hindu undivided Family, so much of the joint income of such Family as has been actually expended or paid for the maintenance or other expenses of any member of such family or paid or finally allotted to any such member.

(7) In the case of a Firm, so much of the income of the firm as has been paid or finally allotted to any of the members of the firm.

(8) In the case of a Company, so much of the income of the company as has been paid or declared for payment by way of dividends or otherwise to any of its members.



**NOTE:**—Nothing in clauses 6, 7 or 8, shall be deemed to exempt from Super Tax any income therein referred to when received by any member of such Family, Firm or Company.

(9) One-tenth of the Total Income, liable to Income Tax as above, of a Hindu undivided Family, Firm or Company, by way of Reserve.

It has also been held by Directors of some Joint Stock Companies that Super Tax weakens the financial position of such companies, inasmuch as these Companies, in order to evade the payment of the Tax, distribute the whole of the Profits earned amongst the Shareholders, and do not transfer any amount thereof to Reserve and other Funds to strengthen the financial position or resources of the business in general. Besides, the Tax has also led to wild speculation in the Share Market on the expectation of large dividends declared by such companies.

If the Tax ceased to be imposed on Joint Stock Companies and Firms, and was made a permanent Tax to be imposed only upon Individuals, as is the case in England, it would not affect the financial position of Companies, nor would it lead to speculation on the Stock Exchange, as stated above. Besides, by so doing, the Revenue would not at all suffer, inasmuch as the Shareholders and Partners would have to account for any profits received at any time from such Companies and Firms, while filling up their individual Returns (Form A) for Super Tax Assesment, as explained in paragraph (e) in section 11.

#### **4. Annual Returns by Assessee.**

In the case of a person or Company, whose total income, in the Collector's opinion, is chargeable to Super Tax, the Collector may send a Notice (in Form A) requiring such person or company to send in, within 30 days from the date of the Notice, a Return in the prescribed Form A, showing particulars of income from all sources accrued in the previous year. (See section 11 (d) hereafter).

Where a return is furnished in accordance with the terms of the above notice, the assessment to be made by the Collector shall be made after considering such return.

If no such return is furnished, such assessment shall be made after such enquiries, as the Collector thinks fit, have been carried out.

### **5. Liability of Persons other than Assessee.**

As regards the liability of Liquidators, Trustees, Receivers, Agents, Guardians, Courts of Wards and Non-residents, to pay the Tax, Rules under Sections 4 and 5 of Chapter VII shall apply.

### **6. Notice to Persons chargeable with Super Tax.**

#### *(a) To pay in Lump Sum.*

In the case of a person or company who, in the Collector's opinion, is chargeable with Super Tax, the Collector shall issue a Notice, in the prescribed Form B, to be served on him or it, stating the following particulars ;

- (1) His or its name and the source or sources of the income in respect of which he or it is chargeable ;
- (2) The year or portion of the year for which the Tax is to be paid ;
- (3) The place or places, district or districts, where the income accrues ;
- (4) The amount to be paid : and
- (5) The places where, and the persons to whom, the amount is to be paid ;

and requiring him or it to pay within 60 days from the date specified in the notice the amount stated therein as payable by him or it, or to apply to the Collector within 30 days from that date to have the Assessment reduced or cancelled.

#### *(b) To pay by Instalments.*

If, upon application by the assessee, the Collector at his discretion allows the payment of Super Tax by instalments, the Notice shall be in the prescribed Form B-1, and shall specify the date on which each instalment falls due and shall require him to pay such instalment within the prescribed period from that date, or to apply as aforesaid to the Collector, within 30 days of the date on which the first instalment falls due.

The said instalments shall not exceed three in number, with such intervals between the payments as will permit the last instalment being paid not later than the 15th. of January in the financial year to which the assessment relates.

## 7. Time and Place of Payment.

Every amount specified as payable in a Notice, served under the foregoing section, shall be paid within the time, at the place and to the person, mentioned in the notice.

## 8. Petition against Assessment.

Any person objecting to the amount at which he is assessed, or denying his liability to be assessed, may apply, within 30 days of the Notice (Form B), by petition (in Form C) to the Collector to have the assessment reduced or cancelled. The Collector shall, after hearing the petitioner and the necessary witnesses, pass such order as he thinks fit.

An Appeal against the decision of the Collector may be made, by an aggrieved assessee, to the Commissioner, whose decision shall be final.

## 9. Refund of Super Tax.

All applications for the Refund of Super Tax, due on account of modification or revision of an assessment on objection or appeal, shall be dealt with by the Collector in accordance with the procedure prescribed under the Income Tax Act, in respect of application for a refund of the Tax chargeable under that Act, so far as the procedure may be applicable.

## 10. Graduated Scale for Rates of Super Tax.

In respect of—		Rate.
1.	the first Rs. 50,000 of Taxable Income,	1 anna in the rupee.
2.	„ next „ „ „ „ „ „	1½ „ „ „
3.	„ „ „ „ „ „ „ „	2 „ „ „
4.	„ „ „ „ „ „ „ „	2½ „ „ „
5.	of all Taxable Income over Rs. 2,00,000;	3 „ „ „

## 11. Preparation of Returns and Accounts for Super Tax.

### (a) Ascertaining "Taxable Income."

The question whether a person, firm or company, is liable to Super Tax or not will depend upon the total Gross Income from all sources, accruing in the previous year, subject to certain deductions stated in section 3. If such total income exceeds Rs. 50,000, the assessee will be required to pay the Tax on the excess over Rs. 50,000, called the "Taxable Income" for Super Tax purposes, otherwise not.

The method of computing total income from all sources is almost the same as that adopted for estimating total income from all sources for the purpose of exemption or relief from Income Tax.

The said deductions and adjustments must be carefully made, because, in certain cases, they may have the effect of bringing the assessee's income to Rs. 50,000 or less, and thus exempting him altogether from the payment of Super Tax. The procedure for ascertaining Taxable Income is as follows:—

1. Aggregate the Total Gross Income from all sources, excluding Income mentioned in section 3 (1, 2, 3 & 4).
2. Deduct the income and expenditure stated in section 3 (5 to 9).
3. The balance of income will show whether the Tax is payable by the Assessee or not.
4. Deduct the Statutory Allowance of Rs. 50,000.
5. The balance of income represents the "Taxable Income" upon which Super Tax is payable, at a rate varying with the Taxable Income, as shown in section 10.

(b) *Joint Stock Companies.*

*Illustration* :—The Swadeshi Manufacturing Co., Ltd., has prepared the following Profit & Loss Account, for the year ending 31st December 1918. Find out the Taxable Income of the Company, and ascertain the amount of Super Tax to which the company is liable for the 1919-20 Assessment. It is assumed that the Collector will allow, by way of Depreciation, only 5% on Machinery and  $2\frac{1}{2}$  % on Buildings.

Dr. PROFIT AND LOSS ACCOUNT. Cr.			
To Materials consumed ...	Rs. 1,02,75,873	By Sales (less Returns) ...	Rs. 1,75,06,731
„ Stores consumed ...	5,27,289	„ Dividends (Free of Tax) ...	15,750

Cfd. Rs. 1,08,03,162

Cfd. Rs. 1,75,22,481

Bfd. Rs. 1,08,03,162	Bfd. Rs. 1,75,22,481
„ Manufactur- ing Wages 8,30,271	„ Rent from subletting ... 2,400
„ Factory Esta- blishment ... 6,50,758	„ Discounts and Allowances' 1,539
„ Office Estab- lishment ... 9,37,367	Transfer Fees 90
„ Income Tax... 1,12,000	
„ Loss on Sale of Investments 15,850	
„ Bad Debts & Discounts (written off) 3,582	
„ Interest on De- bentures (less Tax) ... 15,000	
„ Reserves for Bad Debts & Discounts ... 5,000	
„ Depreciation of Machinery (8%) ... 80,000	
„ Depreciation of Buildings(5%) 72,000	
„ Net Profits carried down 40,01,520	
<u>Rs. 1,75,26,510</u>	<u>Rs. 1,75,26,510</u>
To Dividends on Ord. Shares 25,00,000	By Net Profits brought down 40,01,520
„ Dividends on Pref. Shares 10,00,000	„ Last year's Profits ... 75,000
„ Amount trans- ferred to Re- serve Fund 2,50,000	
„ Balance carri- ed forward 3,26,520	
<u>Rs. 40,76,520</u>	<u>Rs. 40,76,520</u>

To Balance, being	By Net Profits,	
Profits liable	as above ...	40,01,520
to Income	„ Income Tax	1,12,000
Tax, carried	„ Loss on Sale of	
down ...	Investments	15,850
42,15,370	„ Interest on	
	Debentures	15,000
	„ Reserves for	
	Bad Debts &	
	Discounts	5,000
	„ Excess Depre-	
	ciation of	
	Machinery	
	(3%) ...	30,000
	„ Excess Depre-	
	ciation of	
	Buildings	
	(2½%) ...	36,000
<hr/> Rs. 42,15,370		<hr/> Rs. 42,15,370

To Dividends on	By Balance b/d.	42,15,370
Ord. Shares	25,00,000	
„ Dividends on		
Pref. Shares	10,00,000	
„ Interest on De-		
bentures ...	15,000	
„ One tenth of		
profits lia-		
ble to In-		
come Tax ...	4,21,537	
„ Balance, being		
Profits show-		
ing whether		
Tax is pay-		
able or not,		
carried down	2,78,833	

To Statutory Allowance ...	50,000	By Balance b/d.	2,78,833
„ Balance, being Profits taxable to Super Tax (Taxable Income) ...	2,28,833		

Rs. 2,78,833

Rs. 2,78,833

The amount of Super Tax payable by the Company, on its Taxable Income of Rs. 2,28,833, will be Rs. 27,281-3-0, which has been arrived at as shown below :—

On the first Rs. 50,000, @ 1 anna in the	Re.	3,125-0-0
„ next „ 1½	„	4,687-8-0
„ „ „ 2	„	6,250-0-0
„ „ „ 2½	„	7,812-8-0
„ last Rs. 28,833, 3	„	5,406-3-0

Rs. 2,28,833

Rs. 27,281-3-0

(c) *Partnerships or Firms.*

*Illustration.*—Pastakia, Popatlal and Panday, having a Capital of Rs. 1,50,000 in equal shares, are in partnership as Mills Stores Suppliers, sharing profits and losses in the proportions of 5:3:2, respectively. From the following Profit and Loss Account of the Firm, for the year ending 31st. March 1918, ascertain the Profits taxable to Super Tax and the shares of the Tax borne by each partner.

Dr. PROFIT AND LOSS ACCOUNT.				Cr.	
To Office Establishment ...	Rs.	45,938	By Gross Profits, as per Trading A/c. ...	Rs.	2,46,850
„ Donation to Sir J J. Hospital	25,000	„	Profit made on the Race-course ...	14,375	
„ Bad Debts and Discounts (written off)	5,892				
Cfd. Rs. 76,830			Cfd. Rs. 2,61,225		

	Bfd. Rs. 76,830		Bfd. Rs. 2,61,225
„ Income Tax ...	2,000 \	„ Rent from	
„ Rent (less Repairs) ...	6,592	„ Subletting	1,800
„ Interest on Capitals (equal shares) ...	7,500 \	„ Discounts and Allowances	392.
„ Partners' Salaries :—		„ Profit from the Sale of Investments	15,595.
Pastakia 4,800			
Popatlal 3,000			
Panday 2,400	10,200 \		
„ Speculation Loss ...	15,000 \		
„ Net Profits carried down ...	1,60,890		
	<u>Rs. 2,79,012</u>		<u>Rs. 2,79,012</u>

To General Reserve Account	Rs. 44,000	By Net Profits b/d.	Rs. 1,60,890
„ Speculation Reserve Account	25,000		
„ Partners' Drawings Accounts :—			
Pastakia (five-tenth) ...	45,945		
Popatlal (three-tenth)	27,567		
Panday (two-tenth) ...	18,378		
	<u>Rs. 1,60,890</u>		<u>Rs. 1,60,890</u>



**Dr.      PROFIT AND LOSS ACCOUNT,      Cr.**  
**ADJUSTED FOR SUPER TAX.**

To Profits on the	Rs.	By Net Profits (as	Rs.
Race-course	14,375	above) ...	1,60,890
„ Profit from the		„ Donation to the	
Sale of Invest-		the Hospital	25,000
ments ...	15,595	„ Income Tax ...	2,000
„ Balance, being		„ Interest on	
Profits Tax-		Capitals ...	7,500
able to Income		„ Partners' Sala-	
Tax, carried		ries ...	10,200
down ...	1,90,620	„ Speculation	
		Loss ...	15,000
	<u>Rs. 2,20,590</u>		<u>Rs. 2,20,590</u>

To Drawings by		By Balance b/d. ...	1,90,620
the Partners...	91,890		
„ One-tenth of the			
Profits liable to			
Income Tax ...	19,062		
„ Balance, being			
Profits show-			
ing whether			
the Tax is pay-			
able or not, c/d.	79,668		
	<u>Rs. 1,90,620</u>		<u>Rs. 1,90,620</u>

To Statutory Allo-		By Balance b/d.	79,668
wance ...	50,000		
„ Balance, being			
Firm's Profit			
taxable to Su-			
per Tax (Tax-			
able Income)	29,668		
	<u>Rs. 79,668</u>		<u>Rs. 79,668</u>

FIRM'S TAXABLE INCOME		Rs. 29,668•
Less Interest on Capitals	7,500	
Partners' Salaries	10,200	17,700

FIRM'S DIVISIBLE INCOME	Rs. 11,968
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**STATEMENT SHOWING ALLOCATION OF  
TAXABLE INCOME.**

	Pastakia.	Popatlal.	Panday.	Total.
Divisible Income	Rs. 5,984	3,590-6-5	2,393-9-7	11,968
Interest on Capital	2,500	2,500-0-0	2,500-0-0	7,500
Partners' Salaries	4,800	3,000-0-0	2,400-0-0	10,200

Taxable Income Rs. 13,284    9,090-6-5    7,293-9-7 . 29,

The Current Accounts of the partners would be debited with Rs. 830-4-0, Rs. 568-2-5 and Rs. 455-13-7 respectively, being the amounts of Super Tax to be borne by them on the above shares of Profits, @ 1 anna in the rupee, arrived at as follows:—

**STATEMENT SHOWING ALLOCATION  
OF SUPER TAX.**

To be borne by Pastakia on	Rs. 13,284-0-0	830-4-0
do Popatlal	9,090-6-5	568-2-5
do Panday	7,293-9-7	455-13-7

Payable by the Firm on    Rs. 29,668-0-0    Rs. 1,854-4-0

NOTE:—Though the Firm pays a Super Tax of Rs. 1,854-4-0 on its Taxable Income of Rs. 29,668, the Tax is not borne by the Partners in the proportions of 5 : 3 : 2, but in proportions of their respective Profits as shown in the above statement.

(d) *Individuals and Annual Return.*

*Illustration.*—From the following particulars of the Income of Haribhai Mehta, of 32, C. P. Tank Road, prepare

the Annual Return (Form A) for Super Tax Assessment, and ascertain the amount of the Tax payable by him:—

He is the part-time Secretary of the Reliance Insurance Co., Ltd., of 51, Green Street, Fort, where he is given a Salary of Rs. 1,000 per mensem after deducting Income Tax @ 9 pies in the rupee. He is a Shareholder in the Mody Manufacturing Co., Ltd., wherefrom he derives an annual dividend of Rs. 815 (less Tax), and a Debentureholder in the Pareira Mills, Ltd., for Rs. 2,50,000, from which he gets a regular interest @ 6 % (less Tax). He has also subscribed to the 5½ % War Bonds (Free of Tax) up to Rs. 50,000. During his spare hours, he practises as Insurance Counsel at 375, Hornby Road, the Net Assessable Income wherefrom is Rs. 13,278. He is a Sleeping Partner in the Firm of Mody, Master & Co. of 27th Street, Rangoon, where he gets by way of Profits a certain percentage (of interest on his capital) varying with the profits of the Firm; and during the last year he got such interest amounting to Rs. 9,600 (free of Tax). The National Bank of India has credited his Current Account with Rs. 379, being interest due to him.

He also owns a House Property at 32, Sewree Road, the Annual Letting Value whereof is Rs. 15,820, and the Admissible Allowances relating thereto amount to Rs. 3,752. He is a Pensioner of the Baroda State, who give him Rs. 5,000 annually, being a Retired Head Master. He is appointed Examiner in Sanskrit to the Bombay University, wherefrom he got during the last year an honorarium of Rs. 1,900. He is also a Director of the Navsari Assurance Society, Ltd., where he attends the monthly meetings regularly, and so gets Rs. 240 per annum. The Income (less Tax) from his share of the Family Investments amounts to Rs. 2,756-4-0. He is the life-tenant of a small Farm in Tavdi, wherefrom he receives a net income of Rs. 689. He also owns a plot of land, used for toddy purposes, at Mahim, for which he receives Rs. 50 per annum. He is insured with the Franco-India Insurance Co., Ltd., and pays them an annual premium of Rs. 1,572.

## (A) ANNUAL RETURN (Form A) FOR SUPER TAX

Source	Amount	Remarks
<b>Income Received under the following Heads, for the year ending 31st March 1918 :—</b>	Rs.	
<b>I. Salary, Annuity, Pension Etc.</b> Salary as Secretary	12,000	Taxed at 9 pies in the rupee.
<b>II. Dividends from Joint Stock Cos.</b> Mody Manufacturing Co. Shares	1,936	Gross Dividend taken.
<b>III. Interest on Securities.</b> 6% Pareira Mills Debentures	15,000	Gross Interest taken
5½% War Bonds	2,750	"
<b>IV. Other Sources:—</b>		
<b>A. Trade or Profession.</b> Practice of Insurance Counsel	13,278	At 375, Hornby Road.
<b>B. Partnership Profits Etc.</b> Firm of Mody, Master & Co.	9,600	Sleeping Partner.
<b>C. Interest on Mortgage, Deposit etc.</b> National Bank Current A/c.	379	Interest credited.
<b>D. House Property</b> Net Income from the House, at 32, Sewree Road	12,068	Annual Letting Value minus Admissible Allowances
<b>E. Income from outside British India Etc.</b> Pension from Baroda State	5,000	As retired Head-master.
<b>F. Other Profits Etc.</b> Honorarium as Examiner	1,900	In Sanskrit, to the Bombay University.
<b>G. All other income not Specified above</b> Director's Fees	240	From the Navsari Ass. Society, Ltd.
<b>H. Share in Joint Family Income.</b> Share in Investments (Gross)	2,940	Net Income being Rs. 2,756-4-0.
<b>Grand Total Rs.</b>	<b>77,091</b>	

Total Life Insurance Premiums paid during the year...  
Rs. 1,572.

II. Further particulars of profits accrued in partnership with a Firm :—

Person, Firm, Company or Syndicate.		Share in Profits per cent. "	Amount.
Name.	Address.		
Mody, Master & Co.	27th Street Rangoon.	8% on Rs. 1,20,000	Rs. 9,600

DECLARATION.

I, Haribhai Narsingh Mehta, declare that the Income shown in this Return is truly estimated on each of the Sources therein mentioned, that it has actually accrued within the period stated, and that I have no other sources of income liable to Super Tax. The income shown accrued in the year ending 31st March 1918.

Dated, 23rd September 1918.

Signature

HARIBHAI NARSINGH MEHTA.

(B) STATEMENT OF INCOME, FOR SUPER TAX ASSESSMENT.

(a) *Gross Income already taxed, or received free of Tax:*

1. Salary as Secretary	Rs. 12,000	
2. Dividend from Mody Mfg. Co. Shares	1,936	
3 6 % Interest from Debentures of Pareira Mills	15,000	
4. Interest on 5½% War Bonds (free of Tax)	2,750	
5. Interest from "Mody, Master & Co." „	9,600	
6. Interest from Joint Family Investment	2,940	44,226 ✓

(b) *Income not Taxed:—*

1. Net Income from the practice of Insurance Counsel	13,278	
2. Interest on Bank Current Account	379	
3. Net Income from House Property	12,068	
4. Pension from Baroda State	5,000	
5. Honorarium as Examiner	1,900	
6. Director' Fees	240	32,865

77,091

TOTAL GROSS INCOME	Rs. 77,091
Less Statutory Deductions:—	
1. Life Insurance Premium	1,572
Total Net Income, showing whether Tax is payable or not	75,519
Less Statutory Allowance	50,000

TAXABLE INCOME ... Rs. 25,519

Haribhai will pay a Super Tax of Rs. 1,594-15-0, viz., 1 anna in the rupee on Rs. 25,519.

(e) *Exemption from, and Refund of, Super Tax.*

It is contended by some laymen, that Firms and Companies may avoid the payment of Super Tax by distributing the whole of the Profits earned amongst the Shareholders and the Partners, as the case may be. Such Firms and Companies may so evade the Tax as a Body or Association, but they cannot do so individually; that is to say, the Partners and the Shareholders composing such Firms and Companies must account for such profits so received, while filling up their Separate Returns (Form A.) for Super Tax Assessment, and thus pay the Tax on such Profits.

Sometimes, some of the Partners or Shareholders may get exempted from Super Tax, or may claim Refund of the Tax, as the case may be, if their individual Income from all sources is Rs. 50,000 or less, as will appear from the following illustrations:—

(i) *Where a firm pays the Super Tax, but some of the Partners claim relief therefrom, in the shape of exemption or Refund.*

A, B and C are in partnership, sharing profits and losses in the proportions of 3:2:1. They receive neither Interest on their Capitals nor their Management Salaries. The Firm's Taxable Profits (for Income Tax Assessment 1918-19), as agreed with the Collector, are Rs. 2,27,580. The amounts of Profits withdrawn by them during the last year are Rs. 72,000, Rs. 48,000 and Rs. 24,000 respectively.

A owns a House in Girgaum, the Net Income whereof is Rs. 3,828. B holds 10 Shares in the City Manufacturing

Co., Ltd., wherefrom he receives Net Dividend of Rs. 2,100. C. has got Rs. 50,000 worth of 5% War Loan (Free of Tax), and also receives a Net Interest of Rs. 600, as his share in the Family Investments, out of which Rs. 500 are spent on his Family Maintenance.

A, B and C are all insured with the Al Insurance Co. Ltd., for which they pay annual premiums of Rs. 13,000, Rs. 300 and Rs. 1,300, respectively. The partners have no other sources of income. Ascertain the Super Tax payable by the Firm, and the Tax payable or recoverable by each of the partners.

(a) *Firm's Assessment*

Total Profits liable to Income Tax	Rs. 2,27,580
Less Profits withdrawn by the Partners	1,44,000

Profits, showing whether Super Tax is payable or not	83,580
--	--------

Less Statutory Deductions:—

1. Allowance	50,000	
2. One-tenth of the Profits liable to Income Tax	22,758	72,758

TAXABLE INCOME	Rs. 10,822
----------------	------------

The Firm will pay a Super Tax of Rs. 676-6-0, viz., 1 anna in the rupee on Rs. 10,822, and the Current Accounts of A, B and C would be debited with Rs. 338-3-0, Rs. 225-7-4 and Rs. 112-11-8, respectively.

(b) *A's Assessment.*

Profits withdrawn from the Firm	Rs. 72,000
Net Income from House Property	3,828

75,828

Less Life Insurance Premium (only one-sixth of Rs. 75,828)	12,658
--	--------

Profits, showing whether Super Tax is payable	63,170
Less Statutory Allowance	50,000

TAXABLE INCOME	Rs. 13,170
----------------	------------

A has to pay a Super Tax of Rs. 823-2-0, viz., 1 anna in the rupee on Rs. 13,170.

(c) *B's Assessment.*

Profits withdrawn from the Firm	Rs. 48,000
Dividends from Shares (Gross)	2,240

50,240

Less Life Insurance Premium	300
-----------------------------	-----

Profits, showing whether Super Tax is payable or not	Rs. 49,940
--	------------

B is entitled to be exempted from Super Tax, because his Total Net Income does not exceed Rs. 50,000.

(d) *C's Assessment.*

Profits withdrawn from the Firm	Rs. 24,000
Interest received from War Loan (Gross)	2,500
"    "    "    Family Investments (Gross)	640

27,140

Less Statutory Deductions :—

1. Life Insurance Premium	1,300	
2. Spent on his Family Maintenance	500	1,800

Profits, showing whether Super Tax is payable or not	Rs. 25,340
--	------------

C will be exempted from paying the Tax, inasmuch as his Total Net income does not exceed Rs. 50,000.

(ii) *Where the Firm evades the payment of Super Tax by distributing a major portion of its profits amongst the partners ; but the individual partners have to pay the same through their separate assessments.*

X. Y. and Z., partners in a firm, share profits and losses equally. They do not debit their business Profit and Loss Account with any interest on Capital or any Salary as Partners. The firm's Profits for the year 1917, on which Income Tax was paid, amounted to Rs. 1,85,750. They withdrew the 1917 Profits, as shown in their Profit and



Loss Appropriation Account, viz., Rs. 60,000 each, and transferred Rs. 5,000 to General Reserve Account.

X. is a Director in A. B. C. Co., Ltd., from which he receives an annual fee of Rs. 180. He is insured with the Conscientious Life Assurance Co., Ltd., and pays an annual premium of Rs. 675. Y. possesses  $3\frac{1}{2}\%$  Government Promissory Notes of Rs. 10,000, on which he gets a net Interest of Rs. 328-2-0. Z. owns a small cottage at Colaba, the Net Income wherefrom is Rs. 1,317. Find out the Taxable Income of the firm for super Tax Assessment 1918-19, and ascertain the amounts of Tax payable by each of the partners, who have no other sources of income.

(a) *Firm's Assessment.*

Total Profits liable to Income Tax	Rs. 1,85,750
Less profits withdrawn by the partners	1,80,000
Profits, showing whether Super Tax is payable or not	<hr/> Rs. 5,750

The Firm does not pay any Super Tax, inasmuch as its Total Net Income does not exceed Rs. 50,000.

(b) *X's Assessment.*

Profits withdrawn from the Firm	Rs. 60,000
Director's Fees	1,80
	60,180
Less Life Insurance Premium	675
Profits, showing whether Super Tax is payable or not	Rs. 59,505
Less Statutory Allowance	50,000

TAXABLE INCOME                      Rs. 9,505

X. will have to pay the Super Tax of Rs. 594-1-0, viz., 1 anna in the rupee on Rs. 9,505.

(c) *Y's Assessment.*

Profits withdrawn from the Firm	Rs. 60,000
Interest on Govt. Pro. Notes (Gross)	350

Profits, showing whether Super Tax is payable or not	60,350
Less Statutory Allowance	50,000

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TAXABLE INCOME      Rs. 10,350

Y. will similarly pay a Super Tax of Rs. 646-14-0.

*(d) Z's Assessment.*

Profits withdrawn from the Firm	Rs. 60,000
Net Income from House Property	1,317

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Profits, showing whether Super Tax is payable or not	61,317
Less Statutory Allowance	50,000

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TAXABLE INCOME      Rs. 11,317

Z. will similarly pay a Super Tax of Rs. 707-5-0.

## CHAPTER IX

### EXCESS PROFITS DUTY

#### 1. Origin of the Duty.

In moving in the Imperial Legislative Council, in September last, the resolution relating to the offer by India of further financial assistance in respect of the military forces raised or to be raised in India, Sir William Meyer explained that if the War lasted beyond the end of March 1920—the date then provisionally assumed—the actual amount of the contribution as then estimated would be proportionately increased, while, on the other hand, if the War came to an end sooner, the burden on Indian revenues would be proportionately diminished. Hostilities having now terminated, it can safely be anticipated that there will be a considerable reduction of the total amount required; but it is inevitable that the heavy military expenditure should continue for some time until demobilization can be carried out.

These circumstances led the Government of India to impose an Excess Profits Duty. The Bill relating thereto, called the Excess Profits Duty Act of 1919, received the assent of the Viceroy on 20th March 1919 and came into force on and from 1st April 1919. Under the provisions of the Bill, the duty will be imposed in the first instance only on the profits of the year 1918-19 or the corresponding period adopted for income-tax purposes. The extension of the Bill for another year must depend upon circumstances, such as the expenditure entailed in respect of demobilization or other military sequels of the War.

## **2. Application of the Act and the Accounting Period.**

This Act shall apply to every business, trade, commerce or manufacture, with certain exceptions stated hereafter, carried on in British India, or in any place in India, by persons ordinarily resident in British India, during the twelve months ending 31st March 1919; or if the Accounts of the business have been made up within those twelve months for ascertaining income-tax, in respect of a year ending on any date other than the said 31st March, then the year ending on that date; or the business will have the option of taking its ordinary account year and of adding to that the whole of the transactions from the end of such year up to 31st March 1919 and of striking the average from such aggregate for 12 months. If the period which is thus handled consists of 15 months, as it would if the Accounts be closed on 31st December, we take twelve-fifteenths of the profits of the total period. If the Company closes accounts on 30th June and exercises the option of running on to March, we take twelve-twentyfirsts of the aggregate profits of the whole period, and so on.

## **3. Businesses Exempted from the Duty.**

- (a) Any business the income from which is Agricultural Income.
- (b) Employments or Offices.
- (c) Any profession, the profits of which are dependent mainly on the personal qualifications of the person by whom the profession is carried on,

and in which no capital expenditure is required or only capital expenditure of an amount small when compared with the profits which the person carrying on the profession makes. Provided that, the business of any person taking commissions in respect of any transactions or service rendered or any agent of any description (not being a commercial traveller of an agent, whose remuneration consists wholly of a fixed and definite sum not dependent on the amount of business done or any other contingency) shall not be included in this exception.

- (d) Any business which is liable to pay in respect of the accounting period Excess Profits Duty in the United Kingdom.
- (e) Any business, the profits whereof in the accounting period do not exceed Rs 30,000.

#### 4. Taxable or Excess Profits.

The duty will be charged at the rate of 50 per cent. on the excess of the profits earned in the accounting period (i. e. 12 months, as explained in section 2 above) over the Standard Profits (as explained in section 5 below).

NOTE :—An assessee would not be liable to pay the Excess Profits Duty and the Super Tax, at one and the same time. He would have to pay either of the two, whichever is the greater. The assessee will not also have to pay Income Tax on the share of Excess or Taxable Profits taken by the Government. (*See Illustration E.*)

#### 5. Standard Profits.

(1) The standard profits of a business shall be as follows :—

(a) A business may claim to have its Standard Profits calculated at ten per cent., or at such rate not being less than ten per cent. as may be prescribed, on the Capital of the business as existing at the end of the accounting period, in which case the Capital of the business shall be ascertained as shown in section 6 below; or

(b) At the option of the person by whom excess profits duty in respect of the business is payable

- (i) if the profits of the business have been assessed in the years 1913 and 1914 for the purposes of the income-tax law then in force—the aggregate of half of the profits so assessed and half of the interest, if any, received in those years on securities forming part of the Assets of the business; or
- (ii) if the profits of the business have been assessed for the said purposes in the years 1913 and 1914, and in two only of the three years 1915, 1916 and 1917—the aggregate of one-fourth of the profits so assessed and one-fourth of the interest, if any, received in the same four years on securities forming part of the assets of the business; or
- (iii) if the profits of the business have been assessed for the said purposes in all the five years 1913, 1914, 1915, 1916 and 1917—the aggregate of one-fourth of the profits assessed in the years 1913 and 1914 and in such two of the three years 1915, 1916 and 1917 as may be selected by the said person and one-fourth of the interest, if any, received in the same four years on securities forming part of the assets of the business.

(2) If the average capital (i. e. capital as at the end of a year) employed in the business in the years adopted, for the purpose of determining the Standard Profits, is less or more than the Capital so employed at the end of the Accounting period, there shall be made to, or from, the Standard Profits an addition or a deduction, as the case may be, which shall bear to the Standard Profits the same proportion as such increase or decrease of capital bears to the average capital so employed in the years so adopted.

(3) If the assessment in any of the said years was made in respect of a period of less than 12 months, that assessment shall, for the purpose of determining the Standard Profits, be proportionately increased. (*See Illustration B.*)

(4) If a composition for Income Tax was in force in any of the years 1913, 1914, 1915, 1916 and 1917, such composition shall be deemed for the purpose of clause (b) of subsection (1) to have been the Assessment, and the profit

shall be determined in accordance therewith. Provided that the person by whom Excess Profits Duty in respect of the business is payable shall, notwithstanding any such composition, be entitled to have an assessment of the profits of the business made for the purpose of determining the Standard Profits in the same way as the Assessment would have been made if no such composition had been agreed upon.

(5) Each of the years referred to in sub-sections (1) and (4) shall be deemed to be the twelve months commencing with the 1st of April in the year mentioned.

## **6. Ascertainment of Capital.**

(a) The amount of the Capital of a business shall, so far as it does not consist of money, be taken to be:

1. So far as it consists of assets acquired by purchase, the price at which these assets were acquired, subject to such deduction for depreciation or for unpaid purchase money as may be prescribed ;
2. So far as it consists of assets being debts due to the business, the nominal amount of those debts, subject to any allowable deduction in respect thereof allowed under the Indian Income Tax Act, 1918, i. e. Bad Debts written off; and
3. So far as it consists of any other assets which have not been acquired by purchase, the value of the assets at the time when they became assets of the business, subject to such deduction for depreciation as may be prescribed, provided that this provision shall prevent accumulated profits, other than those made in the accounting period, employed in the business being treated as Capital.

(b) Any borrowed money or trade debts shall be deducted in computing the amount of Capital for the purposes of this Act.

(c) Where any asset has been paid for otherwise than in cash, the cost price of that asset shall be taken

to be the value of the consideration at the time the asset was acquired, but where the business has been converted into a company and more than two-thirds of the shares in the company are held by the person who was the owner of the business, no value shall be attached to those shares so far as they are represented by goodwill or otherwise than by material assets of the company, unless the Collector in special circumstances otherwise directs. Patents and Secret Processes shall be deemed to be material assets.

### **7. Increase of Capital.**

Where the capital has been increased during the accounting period, a deduction shall be made from the profits of that period, at the rate of 10 per cent. per annum on the amount by which the capital has been increased, for the period during which such increased capital has been employed. No such increase made after 31st December 1918 shall be taken into account and no such deduction shall be made in respect of any increase of capital before that date when it appears, or to the extent to which it appears, that the increase was made with intent to evade, or has the effect of evading, the payment of the Excess Profits Duty. (*See Illustration C*).

### **8. Reduction of Capital.**

Where the capital has been decreased during the accounting period, an addition shall be made to the profits of that period, at the rate of 10 per cent. per annum on the amount by which the capital has been decreased, for the period during which such decreased capital has been employed.

### **9. Maximum Amount, and Mode of Payment, of Duty.**

The amount of the said duty shall not exceed such sum as would reduce the profits in the accounting period to less than Rs. 30,000/. The amount of duty shall be assessed by the Collector, who will allow reasonable time for payment. He will also allow the duty to be paid in instalments, which

would be as uniform as is practicable throughout India, but the final payment should be made by the 31st of March 1920.

#### **10. Change of Ownership of the Business.**

The duty may be assessed on any person for the time being owning or carrying on the business, whether as agent for the owner or otherwise, or where the business has ceased during the accounting period, on the person who owned or so carried on the business immediately before the time at which the business ceased, and where there has been a change of ownership of the business during the accounting period, the Collector may, if he thinks fit, take the date at which the ownership has so changed and assess the duty on the person who owned or carried on the business.

#### **11. Fictitious or Artificial Transactions.**

A person shall not, for the purposes of avoiding payment of Excess Profits Duty enter into a fictitious or artificial transaction or carry out any fictitious or artificial operation, and, if he has entered into any such transaction or carried out any such operation before the commencement of this Act, he shall inform the Collector of the nature of the transaction or operation.

NOTE :—An artificial transaction or operation includes every device of whatever nature adopted for the purposes of presenting the accounts of a business in a misleading form or manner, with intent to evade or having the effect of evading the obligations imposed by this Act.

#### **12. Notice by Liquidators and Returns from Assessee.**

Every Liquidator of a Company, which is being wound up at the commencement of this Act, or is wound up thereafter, and which is chargeable to Excess Profits Duty, shall before 31st May 1919 or within 2 months of the commencement of winding up give notice of the fact to the Collector.

The Collector may for the purposes of this Act, require any person, whom he believes to be engaged in any business to which this Act applies, or to have been so engaged during the accounting period or in the year ending 31st March 1912 or on 31st March in any year thereafter, to furnish him, within two months after service upon him of a notice to that effect, with such particulars in connection with the business as the Collector may require.



### 13. Penalty for Default.

(a) If a person fails without reasonable cause or excuse to furnish or cause to be furnished to the Collector in due time any notice or particulars required by para. 12, he shall on conviction by a Magistrate, be punishable with fine which may extend to Rs. 30 for every day during which the default continues.

(b) If any person acts in contravention of, or fails to comply with, the provisions of para. 11, he shall, on conviction by a Magistrate, be punishable with fine which may extend to Rs. 1,000.

### 14. Appeal to the Collector.

Upon the application of any person chargeable with excess profits duty to modify the method and alleging that, owing to any of the following circumstances, namely,

- (a) Any change in the constitution of the partnership of which he is or was a member,
- (b) The postponement or suspension, as a consequence of the present War, of Repairs or Renewals,
- (c) Any exceptional depreciation due to the present War or any obsolescence of assets employed in the business,
- (d) The provision in connection with the requirements of the present War of Plant or Machinery, which will not be required for the purposes of the business after the termination of the War, or
- (e) The fact that the Assets of the business consist to any material extent of shares in a Company the business of which is itself chargeable to excess profits duty.
- (f) The liability of any part of the profits of the business to excess profits duty in the United Kingdom.
- (g) Any other special circumstances connected with the nature of the business,

the provisions of this Act for the calculation of Excess Profits Duty operate unfairly in his case, the Collector may make such modifications in the provisions of this Act, for the purpose of the calculation of the amount of the duty, as seem to him to be necessary to meet the special circumstan-

es. Provided that, a reduction in the amount of duty payable under the provisions of the Act by more than 25 per cent. shall not be made without the previous sanction of the Commissioner.

### **15. Appeal against the Decision of the Collector.**

If any person, who has applied under para. 14, is dissatisfied with the decision of the Collector thereon, he may appeal to the Chief Revenue Authority, who shall either itself decide such appeal or, if it is of opinion that questions of general importance are involved, shall refer it to a Board of Referees.

### **16. Board of Referees.**

The Board shall be appointed by the Local Government, and shall consist of three persons, of whom at least one shall be a person not in the service of Government and having acquaintance with business of the nature of that in respect whereof the appeal is made. The Board shall hear and consider any appeal referred as above and shall communicate their decision to the Chief Revenue Authority. In case of a difference of opinion between the members of the Board, the opinion of the majority shall prevail.

The Chief Revenue Authority and the Board shall be entitled to take into account any of the circumstances specified in para. 14, and to modify the decision of the Collector with reference thereto in such way and to such extent as they may consider just and equitable. The decision of the Chief Revenue Authority or of the Board, as the case may be, shall be final, and shall be deemed to be the basis of assessment in the particular case.

### **17. Special Hard Cases.**

The Governor General in Council may, on application made before 30th June, 1919, of any person alleging that, owing to special circumstances to be stated in the application, the provisions of this Act for the calculation of Excess Profits Duty would operate unfairly in the case of any class of business in which such person is engaged, refer such application for the report of a Board of special Referees to be appointed in this behalf by the Governor General in Council.

### 18. Illustrations.

(A) The X. Y. Z. Mills Co., Ltd., was assessed for Income Tax purposes on the profits of the years ending 31st December 1912, 1913, 1915 and 1916 at Rs. 55,000, Rs. 75,000, Rs. 1,10,000 and Rs. 1,80,000 respectively. The Taxable Profits of the year 1918 amounted to Rs. 1,25,000. Ascertain the Excess Profits Duty payable by the Company.

Total Profits = Rs. 55,000 + 75,000 + 1,10,000 + 1,80,000.

= Rs. 4,20,000.

Standard Profits =  $4,20,000 \div 4$  = Rs. 1,05,000.

Taxable Profits = Rs. 1,25,000 less Rs. 1,05,000 = Rs. 20,000.

Duty payable = 50% of Rs. 20,000 = Rs. 10,000.

Thus, the Company will have to pay an Excess Profits Duty of Rs. 10,000.

(B) A. B. C. Co., Ltd., earned profits of Rs. 20,000, Rs. 35,000, Rs. 20,000, Rs. 95,000 and Rs. 85,000, during the six months ending 31st. March 1913, twelve months ending 31st. March 1914, 1915, 1916 and 1917, respectively, on which the assessments were made in the following years. The company similarly made a profit of Rs. 90,000 during the year ending 31st. March 1919. Is the Company liable to pay the Excess Profits Duty, and if so, to what extent?

	1913	1914	1916	1917
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Total profits = 40,000 + 35,000 + 95,000 + 85,000 = Rs. 2,55,000

Standard Profits =  $2,55,000 \div 4$  = Rs. 63,750.

Taxable Profits = 90,000 less 63,750 = Rs. 26,250.

Duty payable = 50% of 26,250 = Rs. 13,125.

The Company is liable to an Excess Profits Duty of Rs. 13,125.

(C) Taking for instance the facts of Illustration A, and considering that on 1st. July 1918 the Company's Capital was increased by Rs. 2,00,000, ascertain the Excess Profits Duty payable by the Co.

Adjusted Profits for the year 1918 are equal to

Rs. 1,25,000 less 10% on 2,00,000 for six months

=1,25,000 less 10,000=Rs. 1,15,000.

Taxable Profits=1,15,000 less 1,05,000=Rs. 10,000.

The Duty payable therefore amounts to Rs. 5,000.

(D) Taking the particulars of Illustration B for example and considering that on 31st. December 1918 the Capital of the Company was reduced by Rs. 1,00,000 (being unrepresented by available assets), what would be the Excess Profits Duty payable by the Company ?

Adjusted Profits for the year ending 31st. March 1919

=Rs. 90,000 plus 10% on 1,00,000 for three months

=Rs. 90,000 plus 2,500= Rs. 92,500.

Taxable Profits=92,500 less 63,750=Rs. 28,750

The Duty payable therefore amounts to Rs. 14,375.

(E) The X. Y. Z. Co. Ltd. made profits (chargeable to Income Tax) of Rs. 3 Lacs, 4 Lacs, 5 Lacs, and 6 Lacs in the years 1912, 1913, 1915 and 1916, respectively. The Assessible Profits (for Income Tax) of the year 1918 amounted to Rs. 4,65,000. Dividends declared for the year 1918 amounted to Rs. 1,50,000. Will the Company pay the Super Tax or the Excess Profits Duty ?

(1) *Super Tax*:—

Profits liable to Income-Tax	...	...	Rs. 4,65,000
Less Dividends paid	...	...	1,50,000
			<hr/> 3,15,000

Less One-Tenth of Profits liable to Income Tax      46,500.

			2,68,500
Less Allowance	...	...	50,000

Profits liable to Super Tax...      Rs. 2,18,500

Super Tax = Rs. 25,343-12-0.

(2) *Excess Profits Duty*:—

Standard Profits =  $\frac{1}{4}$  of 18 Lacs = Rs. 4,50,000.

Taxable or Excess Profits = Rs. 4,65,000 — 4,50,000  
= 15,000.

Excess Profits Duty = Rs. 7,500.

In this case the Company will, therefore, pay the Super Tax and not the Excess Profits Duty.

NOTE:—Had the Standard Profits been 4 Lacs, the Company would have had to pay an Excess Profits Duty of Rs. 32,500 and no Super Tax. Besides, the Company would not have had to pay Income-Tax on the whole Rs. 4,65,000, but less Rs. 32,500, that is on Rs. 4,32,500 only.

## REFERENCE

